HUISEN GROUP

Huisen Household International Group Limited
匯森家居國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code : 2127

GLOBAL OFFERING

HUISEN GROUP

Sole Sponsor and Sole Global Coordinator

中信建投國際
CHINA SECURITIES INTERNATIONAL

If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**750,000,000 Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**75,000,000 Shares (subject to reallocation and adjustment)**
Number of International Offer Shares	:	**675,000,000 Shares (subject to adjustment and the Over-allotment Option)**
Offer Price	:	**HK$1.57 to HK$1.86 per Offer Share (payable in full at the maximum Offer Price on application in Hong Kong dollars, subject to refund on final pricing, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)**
Nominal value	:	**HK$0.10 per Share**
Stock code	:	**2127**

Sole Sponsor and Sole Global Coordinator

中信建投國際 CHINA SECURITIES INTERNATIONAL

Joint Bookrunners and Joint Lead Managers

中信建投國際 CHINA SECURITIES INTERNATIONAL
鴻昇證券 HUNG SING SECURITIES
利得證券
軟庫中華 SBI China Capital

A copy of this prospectus, having attached thereto the documents specified in the section headed "Appendix VI — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — A. Documents Delivered to the Registrar of Companies in Hong Kong", has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors".

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 18 December 2020 and, in any event, not later than Sunday, 27 December 2020. The Offer Price will be not more than HK$1.86 and is currently expected to be not less than HK$1.57, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Sunday, 27 December 2020 between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse. Applicants for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$1.86 for each Hong Kong Offer Share, together with a 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee, subject to refund if the Offer Price is lower than HK$1.86 as finally determined.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.jxhmgroup.com** not later than the morning of the last day of lodging applications under the Hong Kong Public Offering. Please refer to the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for further details. Please also refer to the section headed "Underwriting — Underwriting Arrangements — The Hong Kong Public Offering — Grounds for termination".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure the applicants for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Sole Sponsor (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements — The Hong Kong Public Offering — Grounds for termination". It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged, or transferred within the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

14 December 2020

We will issue an announcement on our website at **www.jxhmgroup.com** and the Stock Exchange's website at **www.hkexnews.hk** if there is any change in the following expected timetable of the Hong Kong Public Offering:

	2020
Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from	9:00 a.m. on Monday, 14 December

Latest time to complete electronic applications under the **HK eIPO White Form** service through one of the below ways(4):

(1) the designated website **www.hkeipo.hk**	
(2) the **IPO App**, which can be downloaded by searching "**IPO App**" in App Store or Google Play Store or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**	11:30 a.m. on Friday, 18 December
Application lists open(2)	11:45 a.m. on Friday, 18 December
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Friday, 18 December
Latest time to give **electronic application instructions** to HKSCC(3)	12:00 noon on Friday, 18 December
Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 18 December
Application lists close(2)	12:00 noon on Friday, 18 December
Expected Price Determination Date(5)	Friday, 18 December

	2020
Announcement of the final Offer Price, the indication of the levels of interest in the International Offering, the level of application in the Hong Kong Public Offering and the basis of allotment under the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be published on the Stock Exchange's website at **www.hkexnews.hk** and our website at **www.jxhmgroup.com** on or before	Monday, 28 December
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels, as described in the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" from	Monday, 28 December
Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** (alternatively: **www.hkeipo.hk/IPOResult**) or available at "Allotment Result" function in the **IPO App** with a "search by ID/Business Registration Number" function from	Monday, 28 December
Despatch/collection of Share certificates in respect of wholly or partially successful applications and e-Auto Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful or wholly or partially successful (if applicable) applications on or before(6)	Monday, 28 December
Dealings in Shares on the Stock Exchange to commence on	Tuesday, 29 December

Application for the Hong Kong Offer Shares will commence on Monday, 14 December 2020 through Friday, 18 December 2020, being longer than normal market practice of three and a half days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving banks on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Monday, 28 December 2020. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 29 December 2020.

Notes:

(1) All times and dates refer to Hong Kong local times and dates. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering — Conditions of the Global Offering".

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above or "extreme conditions" caused by super typhoons in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 18 December 2020, the application lists will not open or close on that day. Please refer to the section headed "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists".

(3) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares — 6. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS".

(4) Applicants will not be permitted to submit their application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** or the **IPO App** after 11:30 a.m. on the last day for submitting applications. If an applicant has already submitted its application and obtained an application reference number from the designated website or the **IPO App** prior to 11:30 a.m., the applicant will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(5) We expect to determine the Offer Price by agreement with the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 18 December 2020 and, in any event, not later than Sunday, 27 December 2020. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before Sunday, 27 December 2020, the Hong Kong Public Offering and the International Offering will not proceed and will lapse.

(6) Applicants who have applied on **WHITE** Application Forms for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the **WHITE** Application Form may collect Share certificates (if applicable) and refund cheques (if applicable) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 28 December 2020 or any other date as announced by us as the date of despatch of Share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorise any other person to make their collection on their behalf.

Applicants being corporations who are eligible for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering may collect their refund cheques, if any, in person but may not elect to collect their Share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Uncollected Share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post to the addressees specified in the relevant Application Forms at the applicants' own risk. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies".

e-Auto Refund payment instructions or refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications if the Offer Price is less than the initial price payable on application.

Share certificates will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects; and (ii) none of the Underwriting Agreements has been terminated. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

You should read carefully the sections headed "Underwriting", "How to Apply for Hong Kong Offer Shares" and "Structure and Conditions of the Global Offering" for additional information regarding the Global Offering, including the conditions to the Global Offering, how to apply for the Hong Kong Offer Shares, the expected timetable, the effects of bad weather and/or extreme conditions and the despatch/collection of Share certificates and refund of your application monies.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Global Offering and the Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Global Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus and the Application Forms. Any information not given or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, officers, employees, agents or representatives, or any other parties involved in the Global Offering. Information contained in our website, located at ***www.jxhmgroup.com*** *does not form part of this prospectus.*

Page

This summary aims to give you an overview of the information contained in this prospectus, which does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide whether to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares.

We are a manufacturer of furniture products in the PRC with a primary focus on the manufacture and sales of panel furniture by way of ODM. During the Track Record Period, over 65% of our revenue from our furniture products was generated from our ODM business and the remaining was generated from our OEM business. All of the products we produced for sales during the Track Record Period were not under our own brands. Our vertically integrated business model allows us to combine our in-house product design and development expertise with our integrated manufacturing platform, providing full range services covering product design and development, manufacture and sales of panel furniture, and securing stable supply of our principal production materials, i.e., particleboards and steel tubes by manufacturing them on our own. We offer comprehensive manufacturing solution to our customers, with the capabilities to design, develop and manufacture functional and economical panel furniture, upholstered furniture, and other furniture such as outdoor furniture and sports and recreational equipment. We believe that this allows us to be more responsive to changes in consumer preferences, to save our customers' costs in product developments, and to secure continuing orders from customers for our own developed products.

We were the largest panel furniture exporter in terms of export value in the PRC in 2019. According to the F&S Report, we held a market share of the panel furniture export market in the PRC of approximately 3.92% in 2019. The panel furniture export market in the PRC is highly fragmented. In 2019, the aggregated export value of the top five panel furniture exporters in the PRC accounted for only approximately 5.73% market share of PRC's total panel furniture exported.

During the Track Record Period, panel furniture was our major product and sales of which contributed approximately 99.9%, 95.5%, 93.7% and 92.0% of our revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020. Based on our customers' feedback their potential demand on such products, we have started commercial production of upholstered furniture, outdoor furniture and sports and recreational equipment since 2017. During the Track Record Period, our furniture products were mainly sold to the U.S. market on wholesale basis, including overseas retail chains directly or through our customers which were furniture traders. The revenue derived from the sales of our furniture product with the U.S. as the delivery destination accounted for approximately 72.4%, 69.4%, 71.8% and 70.5% of our total revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020. Walmart is one of our major customers of our furniture products. During the Track Record Period, Walmart contributed approximately 19.8%, 22.0%, 23.9% and 24.1% of our revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020.

Our furniture products are primarily fast-moving consumer goods which are manufactured and packaged as ready-to-assemble furniture, or RTA furniture. According to F&S report, panel furniture is considered as fast-moving consumer goods since it has short product life and is often sold at relatively lower price as compared with solid wood furniture. The approximate product life cycle of each of our panel furniture, upholstered furniture and other furniture is approximately range from three to five years, one to three years and one to three years, respectively. Our products are either designed by our R&D department or based on designs provided to us by our customers which are then manufactured, packaged and sold to customers in the form of separate components, with instructions for users to assemble the furniture themselves with simple tools.

As at the Latest Practicable Date, we had five self-owned production facilities in Ganzhou, Jiangxi Province, the PRC, namely, Huisen Furniture Factory, Huisen Mingda Factory, Huiming Wood Factory, Aigesen Factory and Weiye Jiankang Factory. Our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory had an aggregate designed production capacity of 1,558,145 cubic metres of panel board for production of panel furniture for the FY2019. The following table sets out the utilisation rate for the production of our panel furniture for the years/period indicated below:

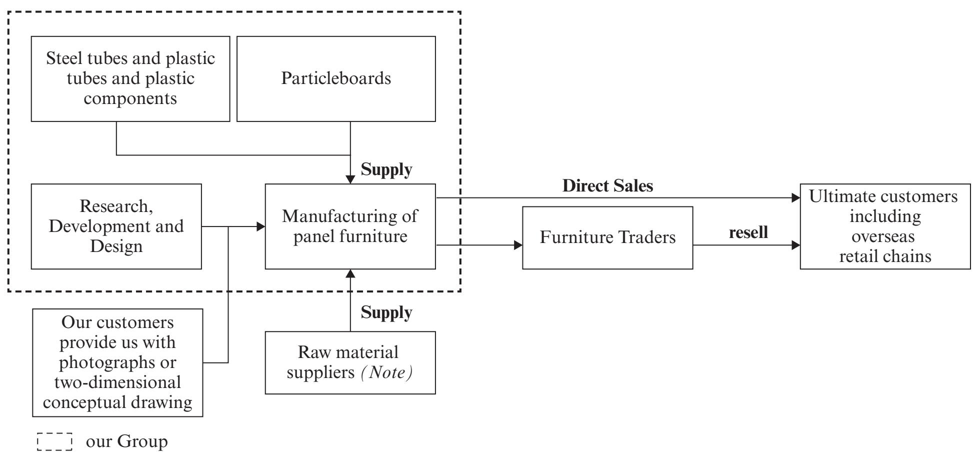
	FY2017	**FY2018**	**FY2019**	**6MFY2020**
Huisen Furniture Factory	94.7%	86.9%	94.2%	64.7%
Huiming Wood Factory	64.3%	89.5%	75.1%	67.6%
Huisen Mingda Factory	45.2%	43.5%	63.6%	64.2%
Overall	**73.7%**	**76.8%**	**79.6%**	**65.5%**

To capture the benefit of vertical integration of our manufacturing operation and secure stable supply of our principal production materials for production of our panel furniture, we also manufacture particleboards, steel tubes, plastic tubes and plastic components principally for our own production use. Please refer to the section headed "Business — Manufacturing Facilities — Production capacity and utilisation rate" for further details on the actual production volume and utilisation rate for panel furniture at these three production facilities during the Track Record Period. Our fully automated particleboards production facilities at our Aigesen Factory enable us to produce particleboards, being the principal production materials of our panel furnitures. We also produce steel tubes at our Weiye Jiankang Factory, and plastic tubes and plastic components at our Huisen Furniture Factory, for our production of our panel furniture. We believe such an integrated manufacturing model helps us to maximise operational efficiency, minimise production costs and maintain quality control, thus allowing us to offer our products to customers at competitive prices and at quality standards which satisfy our customers requirements thereby allowing us to enhance profitability. During each of the FY2017, FY2018, FY2019 and 6MFY2020, we achieved gross profit margins of approximately 23.6%, 23.6%, 23.8% and 22.5%, respectively.

Based on the delivery destinations of our products requested by our customers, our furniture products were exported to more than 55 countries and regions worldwide during the FY2017, FY2018 and FY2019 and to more than 30 countries and regions worldwide during the 6MFY2020. We exported to 63, 56, 60 and 33 countries and regions for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively.

BUSINESS MODEL

The following diagram sets out our business model:



Note: We also purchase raw materials for our production from external suppliers (including particleboards, MDFs, metal and plastic components).

Please refer to the section headed "Business — Our Business Model" for further details.

Our products

We offer a wide range of furniture products mix for home, office and commercial uses. Our products comprise of three categories, namely, (i) panel furniture (such as television cabinets, bookshelves, shelves, desks and coffee tables); (ii) upholstered furniture (such as sofas); and (iii) others, which comprises of, outdoor furniture (such as outdoor tables, outdoor stools and fire pit tables) and sports and recreational equipment (such as table tennis table, foosball tables and pool tables). We started commercial production of upholstered furniture, outdoor furniture and sports and recreational equipment since 2017. Please refer to the section headed "Business — Our Products" for further details.

Our revenue by product types

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Panel furniture *(Note 1)*	2,820,422	99.88	3,177,352	95.50	3,483,930	93.68	1,685,252	96.13	1,499,899	91.98
Upholstered furniture	2,433	0.08	68,391	2.05	111,556	3.00	25,635	1.46	58,736	3.60
Others *(Note 2)*	1,025	0.04	81,478	2.45	123,580	3.32	42,138	2.41	72,107	4.42
Total	**2,823,880**	**100.00**	**3,327,221**	**100.00**	**3,719,066**	**100.00**	**1,753,025**	**100.00**	**1,630,742**	**100.00**

Notes:

1. The revenue of panel furniture included the revenue from sales of particleboards and/or our retail sales, which was approximately RMB6.2 million, RMB37.8 million, RMB31.6 million, RMB18.1 million and RMB6.4 million for each of the FY2017, FY2018, FY2019, 6MFY2019 and 6MFY2020 and accounted for approximately 0.2%, 1.1%, 0.9%, 1.0% and 0.4% of our revenue for each of the respective years/periods.

2. Others include outdoor furniture and sports and recreational equipment.

Our revenue by sales channels

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Sales to retail chains										
— Overseas retail chains	603,695	21.3	793,998	23.9	957,461	25.7	431,622	24.6	398,919	24.5
— PRC retail chain	470	0.1	7,215	0.2	—	—	—	—	—	—
Sales to furniture traders										
— Hong Kong and overseas furniture traders	2,068,034	73.2	2,253,748	67.7	2,487,015	66.9	1,189,230	67.8	1,130,576	69.3
— PRC furniture traders *(Note)*	151,681	5.4	272,260	8.2	274,590	7.4	132,173	7.6	101,247	6.2
Total	**2,823,880**	**100.0**	**3,327,221**	**100.0**	**3,719,066**	**100.0**	**1,753,025**	**100.0**	**1,630,742**	**100.0**

Note: The revenue of the PRC furniture traders includes the revenue from the sales of particleboards and/or our retail sales, which accounted for approximately 0.2%, 1.1%, 0.9%, 1.0% and 0.4% of our revenue for each of the FY2017, FY2018, FY2019, 6MFY2019 and 6MFY2020, respectively.

Our sales by geographical regions

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
United States	2,045,698	72.4	2,308,095	69.4	2,669,892	71.8	1,219,368	69.6	1,150,142	70.5
PRC	152,151	5.4	282,380	8.5	283,354	7.6	132,857	7.6	101,247	6.2
Singapore	233,695	8.3	304,253	9.1	179,444	4.8	114,808	6.5	73,482	4.5
Malaysia	52,508	1.9	68,954	2.1	88,184	2.4	61,351	3.5	42,280	2.6
Vietnam	10,279	0.3	55,747	1.7	79,612	2.1	55,147	3.1	33,370	2.1
Canada	47,311	1.7	52,819	1.6	68,331	1.8	29,557	1.7	26,563	1.6
Hong Kong	14,502	0.5	—	—	—	—	—	—	—	—
Others	267,736	9.5	254,973	7.6	350,249	9.5	139,937	8.0	203,658	12.5
Total	**2,823,880**	**100.0**	**3,327,221**	**100.0**	**3,719,066**	**100.0**	**1,753,025**	**100.0**	**1,630,742**	**100.0**

Our gross profit and gross profit margin by product type

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Panel furniture	664,405	23.6	737,663	23.2	809,653	23.2	399,577	23.7	326,724	21.8
Upholstered furniture	632	26.0	23,844	34.9	37,205	33.4	8,646	33.7	19,209	32.7
Others *(Note)*	233	22.7	23,331	28.6	36,454	29.5	11,970	28.4	20,355	28.2
Total/overall gross profit margin	**665,270**	**23.6**	**784,838**	**23.6**	**883,312**	**23.8**	**420,193**	**24.0**	**366,288**	**22.5**

Note: Others include outdoor furniture and sports and recreational equipment.

Price range and average selling price

The table below sets out details on the price range, average selling price and sales volume breakdown of each product category during the Track Record Period:

	FY2017			FY2018			FY2019			6MFY2019			6MFY2020		
	Price Range *(per unit)* *RMB*	**Approximate Average Selling Price** *(per unit)* *RMB*	**Volume** *(units)* *('000)*	**Price Range** *(per unit)* *RMB*	**Approximate Average Selling Price** *(per unit)* *RMB*	**Volume** *(units)* *('000)*	**Price Range** *(per unit)* *RMB*	**Approximate Average Selling Price** *(per unit)* *RMB*	**Volume** *(units)* *('000)*	**Price Range** *(per unit)* *RMB*	**Approximate Average Selling Price** *(per unit)* *RMB*	**Volume** *(units)* *('000)*	**Price Range** *(per unit)* *RMB*	**Approximate Average Selling Price** *(per unit)* *RMB*	**Volume** *(units)* *('000)*
Panel furniture *(Note 1)*	32–2,618	402	6,992	24–1,583	443	7,093	46–1,833	446	7,745	46–1,666	439	3,795	55–1,605	484	3,086
Upholstered furniture	859–1,916	941	3	820–6,108	2,246	30	1,155–5,664	3,906	29	1,155–5,505	4,029	6	1,396–5,648	3,690	16
Others *(Note 2)*	242–2,515	735	1	8–4,393	1,155	71	45–4,729	1,060	117	45–4,610	1,102	38	50–3,543	931	77

Notes:

1. The information set out for panel furniture has excluded the sales of particleboards and/or our retail sales for FY2017, FY2018, FY2019, 6MFY2019 and 6MFY2020, respectively.

2. Others include outdoor furniture and sports and recreational equipment.

The table below further sets out a breakdown of the price range of our panel furniture during the Track Record Period:

Panel furniture	Price range *(per unit)* *RMB*
Cabinet	70–2,420
Shelf	20–1,600
Chair	80–2,200
Table	30–2,620
Others	30–2,400

Our customers

During the Track Record Period, our furniture products were mainly sold to the U.S. market on wholesale basis, including overseas retail chains directly or through our customers which were furniture traders. We understand that these furniture traders resold our furniture products to various overseas markets including U.S., Canada, Singapore, Malaysia, Vietnam, Europe and other parts of the world. Our five largest customers accounted for approximately 86.1%, 79.7%, 84.2% and 84.6% of our total revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively, and our largest customer accounted for approximately 20.7%, 22.0%, 23.9% and 24.1% of our total revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively.

Our suppliers

We maintained an approved list of suppliers, all of which are located in the PRC. We select our suppliers based principally on several criteria, namely on pricing, product quality and whether such suppliers are able to deliver the production materials on time. Our purchases from our five largest suppliers, which are all located in the PRC, accounted for approximately 14.1%, 15.3%, 16.2% and 20.0% of our total purchase for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively, and our purchases from our largest supplier accounted for approximately 5.9%, 4.8%, 4.3% and 5.5% of our total purchase for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively.

Our pricing

We generally agree with our export sales customers on the price of our furniture products in the purchase orders. We usually determine the price on market-oriented basis for our furniture products and by reference to the wholesale price of comparable products in the market and taking into our cost of production, the expected margin we will charge, the complexity of the product, the labour and technology involved, the volume of order, the credit period given, our relationship with the customer, the negotiation between our customers and us, the market conditions and (where applicable) the exchange rate fluctuation for the year.

Quality control and environmental matters

We maintain and perform comprehensive quality control measures throughout our integrated production model, including screening of suppliers, conducting quality checks for raw material and work-in-progress in order to identify defects at early stages of production and performing inspection procedures for final products, furniture components, packaging, inventory and loading of goods. Please refer to the section headed "Business — Quality Control" for further details. Our operations in the PRC are also subject to the environmental laws and regulations in the PRC, which regulate, among other things, the emission or discharge of pollutants or wastes into the soil, water or atmosphere, the measures for reducing pollution from manufacturing and construction process and disclosure of information relating to pollutants emitted or discharged. Please refer to the section headed "Business — Environmental Matters" and "Appendix III — Regulatory Overview — Overview of PRC Law and Regulations — 7. Environmental protection" for further details.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success: (i) we are the largest panel furniture exporter in the PRC with overall competitiveness in terms of our business model, scale of production capacity, product variety, product design, development and manufacture capabilities, product quality and price; (ii) vertically integrated business model that enhances flexibility, efficiency and quality control; (iii) strong design and development expertise that enables us to develop new and innovative products to meet the changing market demand; (iv) established broad and solid relationship with major international customers for furniture products; (v) compliance with stringent international quality standards, environmental protection and product safety requirements; and (vi) experienced management team with in-depth industry knowledge.

BUSINESS STRATEGIES

Our principal goal is to maintain and strengthen our position as one of the leading panel furniture export manufacturers in the PRC. To meet our goal, we intend to implement the following key business strategies: (i) increase our production capacity for panel furniture and expansion of our product range to tap into upholstered furniture; (ii) construction of the second phase of our Aigesen Factory; (iii) upgrading our production line in our Huisen Furniture Factory; (iv) continue to strengthen our product design, research and development capabilities; and (v) expanding the business through acquisitions of PRC branded furniture companies with proven track record.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and the Capitalisation Issue and without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme, we will be owned as to 73.125% by Pure Cypress, which is in turn wholly owned by Mr. Zeng. For the purpose of the Listing Rules, Pure Cypress and Mr. Zeng are the Controlling Shareholders of our Company. Our Controlling Shareholders confirm that each of them does not have any interest in a business apart from our business which competes or is likely compete, directly or indirectly, with our business. Please refer to the section headed "Relationship with Our Controlling Shareholders" for details.

PRE-IPO INVESTMENT

On 19 November 2018, Pure Cypress transferred 2,500 Shares to Vantage Link at the consideration of HK$1. Vantage Link is wholly owned by Mr. Su, our executive Director and chief financial officer. The Transferred Shares were transferred to Vantage Link at nominal consideration in recognition of, and as reward for, the contribution of Mr. Su to our business operation and development and the Listing. Immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), Vantage Link will hold 1.875% of the total issued share capital of our Company. Please refer to the section headed "History, Reorganisation and Corporate Structure — Pre-IPO Investment" for further details.

KEY FINANCIAL INFORMATION

Our key financial data set forth below has been derived from the Accountants' Report set out in Appendix I and should be read in conjunction with our financial information included in "Appendix I — Accountants' Report" including the accompanying notes and the information set forth in the section headed "Financial Information".

Key consolidated statements of profit or loss information

	FY2017	FY2018	FY2019	6MFY2019	6MFY2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Revenue	2,823,880	3,327,221	3,719,066	1,753,025	1,630,742
Cost of sales	(2,158,610)	(2,542,383)	(2,835,754)	(1,332,832)	(1,264,454)
Gross profit	665,270	784,838	883,312	420,193	366,288
Profit for the year/period	334,781	385,464	568,303	253,489	239,195

Non-HKFRS measures

The Adjusted Net Profit, which is unaudited in nature, represents profit excluding the effects of gain on disposal of subsidiaries, imputed interest expenses on puttable shares, the listing expense and equity-settled share-based payment.

The Adjusted Net Profit is not a measure of performance under HKFRS. As a non-HKFRS measure, the Adjusted Net Profit is presented because our management believes such information will be helpful for investors in assessing the level of our net profit by eliminating the effects of certain one-off or non-recurring items. We have added back, among others, the imputed interest expenses on puttable shares and the equity-settled share-based payment in the reconciliation mainly because they are non-recurring in nature and they do not actually have cash flow.

The imputed interest expenses on puttable shares arose from the transactions under the Investment Agreements in 2017 entered into among, *inter alia*s, Shanghai Huarong (a minority shareholder of Huiming Wood prior to 20 February 2019) and Huiming Wood in relation to the investments of Shanghai Huarong in Huiming Wood in contemplation of the then proposed listing of Huiming Wood in the PRC. Based on the terms and conditions of the Investment Agreements (as supplemented by the Supplemental Shareholders' Agreement), particularly the Put Option granted to Shanghai Huarong pursuant to which Shanghai Huarong may request our Group to purchase all or part of the 6.54% equity interest of Huiming Wood then held by Shanghai Huarong if, among others, Huiming Wood fails to complete its initial public offering and listing of shares on any of the approved stock exchanges before 31 December 2019, it was considered that the transactions were of the nature of a financial liability of our Group pursuant to HKFRS 9 (Financial Instruments) and thereby leading to the incurrence of imputed interest expenses. The redemption amount of the financial liability at initial recognition was calculated with reference to the principal amount of investment by Shanghai Huarong plus an annual investment return of 13% pursuant to the Shareholders' Agreement. The amount of the financial liability was subsequently increased at each financial year/period end with reference to the accrued interest expenses payable to Shanghai Huarong. Following the completion of the Purchase in February 2019, Shanghai Huarong ceased to have any shareholdings or interests in our Group, and no further imputed interest expense would arise from such investment. For details of the investment of Shanghai Huarong, please refer to the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood". Given that the investment of Shanghai Huarong was made in contemplation of the PRC Listing, it was considered that the imputed interest expenses were not related to or arising from our ordinary course of business and therefore non-recurring in nature.

The equity-settled share-based payment represents the cost of the Transferred Shares by Pure Cypress to Vantage Link, in recognition of and reward to Mr. Su for his contribution to, among others, the Listing, accordingly, such payment was not arising from our ordinary course of business and therefore non-recurring expenses in nature. For further details of transfer of the Transferred Shares to Vantage Link, please refer to the section headed "History, Reorganisation and Corporate Structure — Pre-IPO Investment".

The use of the Adjusted Net Profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year/period. Below is a table that reconciles our Adjusted Net Profit for the year/period presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS, which is profit for the year/period:

	FY2017	**FY2018**	**FY2019**	**6MFY2019**	**6MFY2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit for the year/period	334,781	385,464	568,303	253,489	239,195
Less: Gain on disposal of subsidiaries	(1,008)	—	—	—	—
Add:					
— Imputed interest expenses on puttable shares	42,633	44,825	3,268	3,268	—
— Listing expenses	359	11,154	10,097	5,064	1,906
— Equity-settled share-based payment	—	92,425	—	—	—
Adjusted Net Profit	376,765	533,868	581,668	261,821	241,101
Adjusted Net Profit margin *(Note)*	13.3%	16.0%	15.6%	14.9%	14.8%

Note: Adjusted Net Profit margin equals to our Adjusted Net Profit for the year/period divided by our revenue for the year/period and multiplied by 100%.

Our revenue increased from approximately RMB2,823.9 million for the FY2017 to approximately RMB3,719.1 million for the FY2019, representing a CAGR of approximately 14.8%. Our revenue decreased by approximately RMB122.3 million, or 7.0% from approximately RMB1,753.0 million for the 6MFY2019 to approximately RMB1,630.7 million for the 6MFY2020. Our Adjusted Net Profit increased from approximately RMB376.8 million for the FY2017 to approximately RMB581.7 million for the FY2019, representing a CAGR of approximately 24.3%. Our Adjusted Net Profit for the period decreased by approximately RMB20.7 million, or 7.9% from approximately RMB261.8 million for the 6MFY2019 to approximately RMB241.1 million for the 6MFY2020. For more information of our Adjusted Net Profit, please refer to the section headed "Financial Information — Principal Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income — Non-HKFRS measure". Our overall increase in our revenue during the FY2017, FY2018 and FY2019 was attributable to (i) the increase in the overall designed production capacities of panel furniture at our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory; (ii) the stable increase in the sales of our panel furniture, in particular, our sales of cabinet, shelf and table, supported by the increase in sales of upholstered furniture and others; (iii) the increase in sales from the majority of the Top Five Customers; and (iv) the increase in the overall average selling price of our panel furniture products. The decrease in our revenue during the 6MFY2020 as compared to that in 6MFY2019 was mainly due to (i) the temporary suspension of our production facilities in February 2020 due to the outbreak of COVID-19 pandemic and the preventive measures imposed by the PRC government; and (ii) the decrease in order received by us (in terms of transaction amounts) as our customers and/or their downstream customers were relatively conservative in placing orders given the outbreak of COVID-19 pandemic and the lockdown measures in the U.S.. For further details on the reason for the fluctuation in our revenue, please refer to the section headed "Financial Information — Period-to-Period Comparison of Results of Operations".

In respect of our export sales, prices are quoted in US$ on free on board basis. For the FY2017, FY2018, FY2019 and 6MFY2020, we recorded net foreign exchange gains (losses) of approximately RMB(48.7) million, RMB30.7 million, RMB2.8 million and RMB10.9 million, respectively. During the Track Record Period, we had not adopted any financial instrument to hedge our foreign currency exchange risks. Any change in the foreign exchange rates may affect our revenue. Appreciation of RMB would reduce the income from overseas sales in terms of RMB, which may affect our financial conditions and profitability.

Our gross profit increased from approximately RMB665.3 million for FY2017 to approximately RMB784.8 million for FY2018, and further increased to approximately RMB883.3 million for FY2019. Our increase in overall gross profit in FY2018 and FY2019 was mainly due to the increase in the sales of our panel furniture products in FY2018 and in FY2019. Our gross profit decreased from approximately RMB420.2 million for 6MFY2019 to approximately RMB366.3 million for 6MFY2020. The decrease was mainly due to the combined effect of the decrease in the sales of our panel furniture products as a result of (i) the temporary suspension of our production facilities in February 2020 due to the outbreak of COVID-19 pandemic and the preventive measures imposed by the PRC government; (ii) the decrease in order received by us (in terms of transaction amounts) as our customers and/or their downstream customers were relatively conservative in placing orders given the outbreak of COVID-19 pandemic and the lockdown measures in the U.S.; and (iii) the increase in our direct labour and overhead costs in 6MFY2020.

Our overall gross profit margin remained relatively stable at approximately 23.6%, 23.6% and 23.8% for the FY2017, FY2018 and FY2019, respectively. Our gross profit margin for panel furniture remained relatively stable at approximately 23.6% for the FY2017 and 23.2% for the FY2018 and FY2019, respectively. Furthermore, our gross profit margin for (i) upholstered furniture increased from approximately 26.0% for the FY2017 to 34.9% for the FY2018; and (ii) others increased from approximately 22.7% for the FY2017 to 28.6% for the FY2018. Such increase was mainly due to the fact that (i) both upholstered furniture and other furniture were still under trial commercial production in FY2017; and (ii) we sold more upholstered furniture and other furniture with more complex design and production requirements that had higher gross profit margin in FY2018 which led to the increase in gross profit margin of both of these products. Our gross profit margin for upholstered furniture and others remained relatively stable at approximately 33.4% and 29.5% for the FY2019, respectively. Our overall gross profit margin decreased from approximately 24.0% for the 6MFY2019 to 22.5% for the 6MFY2020 mainly due to the combined effect of the increase in direct labour cost and overheads cost in 6MFY2020 as compared with that in 6MFY2019 and the decrease in sales of our panel furniture products in 6MFY2020 as compared with that in 6MFY2019.

Key consolidated statement of financial position information

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	1,168,032	1,100,881	1,017,253	980,511
Current assets	1,983,591	2,160,252	2,369,947	2,498,879
Current liabilities	1,395,583	1,170,323	891,902	750,416
Net current assets	588,008	989,929	1,478,045	1,748,463
Total assets	3,151,623	3,261,133	3,387,200	3,479,390
Net assets	1,443,979	1,800,665	2,368,897	2,608,092

Key consolidated statement of cash flow

	FY2017	**FY2018**	**FY2019**	**6MFY2019**	**6MFY2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Operating profits before working capital changes	563,490	770,695	831,013	384,290	359,682
Change in working capital	(225,012)	(49,313)	(60,106)	33,204	207,423
Income tax paid	(62,560)	(99,831)	(99,101)	(40,791)	(42,409)
Net cash generated from operating activities	275,918	621,551	671,806	376,703	524,696
Net cash generated from/(used in) investing activities	46,198	(160,125)	30,045	48,612	(17,605)
Net cash generated from/(used in) financing activities	182,140	(314,354)	(523,753)	(357,274)	(63,622)
Net increase in cash and cash equivalents	504,256	147,072	178,098	68,041	443,469
Cash and cash equivalents at the beginning of year/period	255,210	759,466	906,538	906,538	1,084,636
Cash and cash equivalents at the end of year/period	**759,466**	**906,538**	**1,084,636**	**974,579**	**1,528,105**

Key financial ratios

	As at/For the year ended 31 December 2017	2018	2019	As at/ For the six months ended 30 June 2020
Net profit margin	11.9%	11.6%	15.3%	14.7%
Return on equity	26.2%	23.8%	27.3%	19.2%
Return on assets	11.7%	12.0%	17.1%	13.9%
Current ratio	1.4 times	1.8 times	2.7 times	3.3 times
Quick ratio	1.2 times	1.7 times	2.5 times	3.1 times
Gearing ratio *(Note)*	91.9%	62.1%	27.8%	23.6%
Debt to equity ratio	39.3%	11.7%	net cash	net cash
Interest coverage	6.0 times	5.7 times	12.2 times	14.0 times

Note: Gearing ratios equals to our total debt (including borrowings, amounts due to shareholders, amounts due to related parties, puttable shares payables and lease liabilities) as at the end of the year/period divided by total equity as at the end of the year/period and multiplied by 100%.

Our net profit margin was approximately 11.9%, 11.6%, 15.3% and 14.7% for the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Our net profit margin remained relatively stable for the FY2017 and FY2018. Our net profit margin increased to approximately 15.3% for the FY2019 mainly due to the combined effect of (i) an increase in revenue arising from the increase in our sales of panel furniture and supported by the increase in sale of upholstered furniture and others; and (ii) decrease in finance costs mainly arising from the decrease in imputed interest expenses on puttable shares in respect of the investment in Huiming Wood by Shanghai Huarong. Our net profit margin remained relatively stable at approximately 14.5% for the 6MFY2019 and approximately 14.7% for the 6MFY2020. Please refer to the section headed "Financial Information — Period-to-Period Comparison of Results of Operations" for the reasons of the fluctuation in our net profit margin during the Track Record Period.

Our return on equity was approximately 26.2%, 23.8%, 27.3% and 19.2% for the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Our return on equity decreased to approximately 23.8% for the FY2018 mainly due to the increase in our total equity arising from the increase of our retained earnings attributable to the increase in our net profit for the year. Our return on equity increased to approximately 27.3% for the FY2019 mainly due to the increase in our net profit for the year. Our return on equity decreased to approximately 19.2% for the 6MFY2020 mainly due to (i) the increase in our total equity caused by (a) the increase of our retained earnings attributable to our net profit for the period; and (b) the decrease in total current liabilities mainly due to the decrease in trade and bills payables as at 30 June 2020 while our total assets remained relatively stable as at

30 June 2020; and (ii) the decrease in our net profit mainly due to (a) the decrease in net profit during 6MFY2020 compared with 6MFY2019; and (b) we generally record higher revenue in the fourth quarter of each year.

Our return on assets was approximately 11.7%, 12.0%, 17.1% and 13.9% for the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Our return on total assets increased to approximately 12.0% for the FY2018 and further increased to approximately 17.1% for the FY2019 mainly due to (i) the increase in our net profit for the year; and (ii) our total assets remained relatively stable for the corresponding year. Our return on total assets decreased to approximately 13.9% for the 6MFY2020 mainly due to (i) the decrease in our net profit mainly due to (a) the decrease in net profit during 6MFY2020 compared with 6MFY2019; and (b) we generally record higher revenue in the fourth quarter of each year; and (ii) our total assets remained stable for the period.

Our gearing ratio was approximately 91.9%, 62.1%, 27.8% and 23.6% for the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Our gearing ratio decreased to approximately 62.1% as at 31 December 2018 mainly due to increase in our total equity because of the increase of our retained earnings attributable to the increase in our net profit for the year while our total debt decreased mainly due to payback of bank borrowings during the year. Our gearing ratio further decreased to approximately 27.8% as at 31 December 2019 and approximately 23.6% as at 30 June 2020 mainly due to the decrease in our total debt and increase in our total equity as a result of the increase of our retained earnings attributable to our net profit for the year/period.

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, we had delivered certain furniture products to the Relevant Countries which were subject to certain sanctions programs, and our revenue generated from sales to the Relevant Countries amounted to approximately RMB1.9 million, RMB1.0 million, nil and nil, representing approximately 0.07%, 0.03%, nil and nil of our total revenue for FY2017, FY2018, FY2019 and 6MFY2020, respectively. Apart from the deliveries to the Relevant Countries, we had delivered furniture products to Cuba, Iran and Sudan (i.e. the Cuba, Iran and Sudan Deliveries) during 2014 to 2016. Please refer to the section headed "Business — Business Activities in Countries subject to International Sanctions" of this prospectus for further details. We have been advised by our International Sanctions Legal Advisers that our business activities with the Relevant Countries do not appear to have implicated any violation of International Sanctions.

During 2014 to 2016, seven payments in an aggregate amount of US$445,184 from five customers located in Hong Kong and the United States with respect to the Cuba, Iran and Sudan Deliveries were denominated in U.S. dollars and were processed through the U.S. financial system before they were received by us. As advised by our International Sanctions Legal Advisers, the Cuba, Iran and Sudan Deliveries appear to be a potential violation of U.S. sanctions regulations that are applicable to transactions with Cuba, Iran and Sudan.

After consulting with our International Sanctions Legal Advisers, we filed a voluntary self-disclosure ("**VSD**") with OFAC in February 2019 related to the Cuba, Iran and Sudan Deliveries, and will cooperate fully with the U.S. government in resolving this matter. Based on the facts and circumstances and the assessment made by our International Sanctions Legal Advisers, our Directors believe that the most likely result of the VSD will be a cautionary letter issued by OFAC to close out the case without the imposition of any penalty. If, however, in the less likely event that OFAC were to impose an administrative penalty on us as a result of potential sanctions violations, our Directors believe, based on consultation with our International Sanctions Legal Advisers, that such penalties, even if imposed, are unlikely to have a material adverse effect on our financial condition or results of operations. As advised by our International Sanctions Legal Advisers, the potential penalties for violations of the U.S. sanctions regulations in this case include a monetary fine of up to US$222,592 based on the relevant enforcement guidelines. Up to the Latest Practicable Date, we had not received feedback or response from OFAC in respect of our VSD submitted in February 2019. As advised by our International Sanctions Legal Advisers, OFAC is not subject to a statutory or regulatory timeframe to complete its review of our VSD and it is not uncommon for OFAC to take several years before concluding a case. It is believed that the progress of OFAC's review of our VSD to a certain extent was affected by the office closure and/or remote working arrangements due to the COVID-19 outbreak during the large part of calendar year 2020. We will, as soon as practicable after OFAC closes out our case, make appropriate disclosure and/or announcement in accordance with the applicable Listing Rules. Please refer to the section headed "Risk Factors — Risks Relating to our Business — We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities" and "Business — Business Activities in Countries subject to International Sanctions" this prospectus for further details.

Since July 2016, we have ceased all of our sales transactions relating to Cuba, Iran and Sudan. Further, we do not plan to undertake any future business with persons on the SDN Lists, any business connected to any comprehensively sanctioned countries, or any other business that may expose us to sanctions risks. Furthermore, in our future dealing with customers located in or request delivery to Countries subject to International Sanctions of any kind, we will implement internal control measures to minimize our risk exposure to international sanctions. As further advised by our International Sanctions Legal Advisers, given the scope of the Global Offering and the expected use of proceeds as set out in this prospectus, the involvement by parties in the Global Offering would not implicate any applicable international sanctions on such parties, including our Company, our investors, our Shareholders, the Stock Exchange and its listing committee and related group companies.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

In mid-2018, economic conflicts between the U.S. and PRC had developed into the Sino-U.S. trade war and the U.S. has been imposing additional tariff and other trade restriction on goods imported from the PRC leading to downward pressure on PRC's export to the US. On the other hand, there has been an outbreak of the COVID-19 pandemic globally in 2020. On 31 January 2020, the World Health Organisation declared the outbreak of COVID-19 as a public health emergency of international concern and subsequently characterised COVID-19 as a pandemic on 11 March 2020. The Sino-U.S. trade war and prolonged outbreak of COVID-19 may pose impacts on our business operation and financial performance as further discussed below.

Sino-U.S. Trade War

In light of the recent threats of Sino-U.S. trade war, our business may be adversely affected by trade restrictions or tariff imposition implemented by the U.S. and the PRC government. In the second half of 2018, the USTR published three lists of tariff lines on Chinese imported goods that would be subject to additional tariffs. The additional tariffs imposed on the products in the third tariff list came into effect on 24 September 2018 at an initial rate of 10%, which was further increased to 25% with effect from 10 May 2019. In August 2019, the USTR published the fourth list of tariff which came into effect on 1 September 2019 at an initial rate of 15%, which was subsequently reduced to 7.5% on 13 December 2019. On 15 January 2020, the U.S. and the PRC government signed the agreement regarding the phase one trade deal, pursuant to which, a proposed additional tariff on about US$162 billion of Chinese goods had been suspended. However, the U.S. tariffs levied on the imported Chinese goods under the third and fourth tariff lists would remain at 25% and 7.5%, respectively. To the best knowledge, information and belief of our Directors, all of our panel furniture, upholstered furniture and outdoor furniture products exported to the U.S. were included in the third tariff list and all of our sports and recreational equipment were included in the fourth list of tariff and therefore would be subject to the additional tariffs imposed by the U.S. government. As such, all the revenue derived from the sale of our panel furniture, upholstered furniture, outdoor furniture and sports and recreational equipment would be subject to the additional tariffs imposed by the U.S. government. However, as advised by our U.S. Legal Advisers, the liability for payment for the U.S. import duties and tariffs belongs to the importer of the goods. As our products were sold and delivered to the U.S. on a free on board arrangement, we are not the party that imports products into the U.S. or responsible for customs clearance within the jurisdiction of the U.S., we are not responsible for the payment of any such tariffs for products imported into the U.S..

Up to the Latest Practicable Date, none of our customers has cancelled any orders and we have continued to receive new purchase orders from our existing customers. Despite the imposition of the additional import tariffs on most of our products exported to the U.S. since September 2018, our total sales with the U.S. as the delivery destination continued to increase from approximately RMB2,308.1 million in FY2018 to approximately RMB2,669.9 million in FY2019. In addition, the overall gross profit margin of our products remained relatively stable at approximately 23.6%, 23.8% and 22.5% in FY2018, FY2019 and 6MFY2020, respectively. Also, the average selling price (per unit) of our panel furniture product had remained relatively stable at around RMB400 to RMB480 in FY2018, FY2019 and 6MFY2020. The table below sets out a breakdown of our sales volume and the average selling price of our furniture products with the U.S. as the delivery destination during the Track Record Period:

FY2017		**FY2018**		**FY2019**		**6MFY2020**	
Sales volume *(units)*	**Average selling price** *(per unit)* *RMB*	**Sales volume** *(units)*	**Average selling price** *(per unit)* *RMB*	**Sales volume** *(units)*	**Average selling price** *(per unit)* *RMB*	**Sales volume** *(units)*	**Average selling price** *(per unit)* *RMB*
5,752,000	356	5,716,000	404	6,325,000	422	2,251,000	511

According to the F&S Report, the export value of PRC panel furniture to the U.S. had recorded a decline of approximately 29.9% in 2019 as compared with 2018 primarily as a result of the acceleration of the Sino-U.S. trade war. Nevertheless, F&S advised that the export value of PRC panel furniture to the U.S. is estimated to gradually recover from 2020 to 2024 at a CAGR of approximately 6.0% on the basis that the U.S. has been heavily relying on the import of furniture products from the PRC, and the PRC has been the largest export country of furniture to the U.S. since 2014. Furthermore, panel furniture products manufactured in the PRC are competitive in terms of their reliable quality and overseas retails chains such as Walmart has developed long term relationship with manufacturers in the PRC. Additionally, PRC has one of the most established and comprehensive manufacturing chain for panel furniture from supply of panel board to manufacturing of panel furniture which supports its scale of production and product quality. In light of the above, we consider that the panel furniture products from the PRC is expected to remain competitive in the U.S. market in the future in spite of the additional imported tariff imposed.

In view of the imposition of additional tariffs, we have entered into good faith negotiations with our customers. We have entered into new legally binding framework agreements with three of the Top Five Customers which are Hong Kong furniture traders and Independent Third Parties, namely, Carrie, Tianhong and Senyue (the aggregate revenue from these three customers was approximately RMB1,489.0 million for FY2019, which in aggregate accounted for approximately 40.0% our total revenue for FY2019, and the aggregate revenue generated from them in respect of sales of our products delivered to the U.S. for FY2019 represented approximately 39.7% of our total revenue with the U.S. as the delivery destination in FY2019), pursuant to which each of the relevant customers has agreed, in each year from FY2019 to FY2021, they would purchase furniture products from us at a quantity that is no less than the purchased quantity from us in FY2018 and the unit purchase price (in RMB) of each product to be purchased will not be lower than that of the same product purchased from us in FY2018. Our revenue generated from each of Carrie, Tianhong and Senyue based on sales of products delivered to the U.S. was approximately RMB202.0 million, RMB373.4 million and RMB288.2 million for FY2018, approximately RMB273.0 million, RMB451.8 million and RMB336.4 million for FY2019, and approximately RMB113.4 million, RMB201.9 million and RMB150.3 million for 6MFY2020 respectively. We consider that, the entering into of the framework agreement with these customers demonstrated their strong and stable demand on our products and our bargaining power in terms of pricing. Furthermore, based on the discussion with our customers, our Directors believe that the potential pressure on the pricing of our products resulting from the additional tariff could be partially passed on to the end customers by an increase in the retail price of the products manufactured by us. Up to the Latest Practicable Date, we had not experienced any significant pricing pressure from our customers as a result of the imposition of the additional tariffs by the U.S.

Apart from the above, we consider that the Sino-U.S. trade war did not and would not have any material adverse effect on our financial conditions, results of operations and growth prospects and we would not be easily replaced by other suppliers of panel furniture products on the following basis:

1. Long and stable business relationship with our customers

We have maintained long term relationship with the Top Five Customers, ranging from five to eight years as at the Latest Practicable Date. In particular, we had established a long and stable business relationship with Walmart, the world's largest retail company and a well-known and influential corporation, since 2012. According to the F&S Report, overseas retail chains such as Walmart tend to source panel furniture products from a limited number of suppliers and they normally maintain a stable and long term business relationship with their approved suppliers as it is costly for them to switch to new suppliers given their rigorous and stringent procedures in selecting suppliers. Our sales to Walmart had recorded continuous growth from approximately RMB560.0 million in FY2017 to approximately RMB890.2 million in FY2019, representing a CAGR of approximately 26.1%. As confirmed by Walmart, we are their largest and only direct supplier of panel furniture in the PRC as they source their other panel furniture products through traders in the PRC. The stable and growing business relationship between us and Walmart shows that our products satisfied the stringent quality standards and requirements of Walmart and, coupled with the reasons as further elaborated below, we consider that we could not be easily replaced by other suppliers of panel furniture products. We also considered that we would be able to build reputation as a result of the continuous business relationship between us and Walmart and therefore attract further sales order from other customers.

2. *Our competitiveness over manufacturers from nearby regions such as Vietnam*

Despite the imposition of additional tariff by the U.S., we are of the view that furniture manufacturers from nearby regions such as Vietnam would not pose a material threat to the demand of our products. According to the F&S Report, despite the increasing competitions from furniture manufacturers located in nearby regions such as Vietnam, it is unlikely that these manufacturers would be able to replace the manufacturers in the PRC, in particular, the leading and sizable market players, in the near future due to the lack of sufficient production capacity, experience, skilled labours and infrastructures in Vietnam. For further details, please refer to the section headed "Industry Overview — Competitive landscape — Competition from other Southeast Asian countries such as Vietnam" and "U.S. panel furniture market — Impact of the Sino-U.S. trade war".

In addition, the Top Five Customers had indicated that they do not intend to shift their orders to manufacturers in other Southeast Asian countries such as Vietnam in the foreseeable future mainly because of the unstable supply of products, the relatively inexperienced workers, low level of products quality and the lack of sizable manufacturers as compared with our Group. Furthermore, some of the Top Five Customers indicated that their peers or themselves had experienced various issues in sourcing panel furniture products from Vietnam and other Southeast Asian countries. On the other hand, (i) we are the largest supplier for the majority of the Top Five Customers and the largest and only direct supplier of panel furniture of Walmart in the PRC as they source their other panel furniture products through traders in the PRC; (ii) we have an increasing production capacity that is much higher than the other panel furniture manufacturers in the PRC and therefore would be able to maintain a stable and timely supply of quality products; (iii) we focus on the manufacture and sale of panel furniture and have the capability to manufacture particleboard in-house thereby ensuring the quality of our products; and (iv) we have strong R&D capabilities which allow us to offer products of different types and designs and products that suit the overseas market preference. Our customers can centralise their purchases of furniture products from us and thereby reducing their cost of procurement. Based on the above, our Directors believe that our customers will not gradually shift their orders with our Group to non-PRC suppliers.

3. *Panel furniture market in the U.S. and stable business performance of the sizable overseas retail chains*

Despite the Sino-U.S. trade war, the panel furniture market in the U.S. had remained stable in 2019. According to the F&S Report, there has not been any material adverse change in the market size of panel furniture in the U.S. (in terms of revenue), which had remained stable at approximately US$25.0 billion in 2018 and 2019.

As advised by F&S, the Sino-U.S. trade war had less impact on sizable overseas retailers as they are able to shift part of the burden of the additional tariffs to their customers or trading partners. Based on publicly available information, total sales and gross profit margin of the relevant segments of the sizeable overseas retail chains, including Walmart and other major downstream customers of our customers (the "**Major End Customers**") had also remained stable in 2019 as compared to that of 2018. It demonstrated that the Major End Customers (i) have a higher competitiveness as compared with other small to medium size retailers and furniture traders and therefore were less affected by the Sino-U.S. trade war; and (ii) were able to shift part of the burden of the additional tariffs to their customers or other trading partners. Further, based on the discussion with the Top Five Customers, to their best knowledge, the additional tariff had been, in general, partially passed on to the end customers by their major downstream customers through adjustments in retail price of the products manufactured by our Group. For further discussion on the impact of tariff on manufacturers in the PRC and retailers in the U.S., please refer to the section headed "Industry Overview — U.S. panel furniture market — Impact of the Sino-U.S. trade war".

4. *Competitive strengths of our Group*

According to the F&S Report, we were the largest panel furniture exporter in the PRC in both 2018 and 2019, and our total export value was over four times of that of the second largest panel furniture exporter in the PRC in 2019. Given our size of operation and leading position in the panel furniture export market in the PRC, we consider that we are less affected by the Sino-U.S. trade war as compared with the small to medium size manufacturers. Notwithstanding the additional tariff imposed on our products exported to the U.S. since September 2018, we were able to achieve growth in our revenue in FY2019 and our gross profit margin remained relatively stable during the Track Record Period and were not significantly affected by the imposition of the additional tariff. Our Directors consider that, in addition to the price competitiveness of our products, we had been able to heighten our core competitiveness among our competitors in terms of our large production capacity, product variety, product design, development and manufacturing capabilities, product quality and stable supply of products. For further discussion on our competitive strengths, please refer to the section headed "Business — Competitive Strengths".

Taking into account of the above and to the best knowledge of our Directors after making reasonable enquiries including monitoring the recent development in relation to the Sino-U.S. trade tensions and discussing with our customers, the recent Sino-U.S. trade tensions up to the Latest Practicable Date did not and would not have any material adverse impact on our financial conditions, results of operations and growth prospects.

Notwithstanding the abovementioned and the fact that we consider that we could not be replaced easily by other suppliers of panel furniture products given the reasons set out above, it cannot be assured that our business would not be negatively affected by the Sino-U.S. Trade War and that our customers would not shift their orders currently placed with us to our competitors which are located in other countries in the future. Please refer to the section headed "Risk Factors — Risks Relating to our Business — Imposition of U.S. import tariff on our furniture products would increase our customers' purchase costs, affect the price competitiveness of our furniture products, and may adversely affect our results of operations" for the risk we face in respect of the Sino-U.S. Trade War.

COVID-19 outbreak

In response to the outbreak of the COVID-19 across the PRC since early 2020, a number of provinces and municipalities in the PRC have taken emergency public health measures and various actions to prevent the spread of COVID-19, including but not limited to, temporary restrictions on enterprises from resuming work, traffic control and travel bans. The Jiangxi Provincial Government had issued notices requiring all enterprises to adopt internal control measures regarding COVID-19 and report to and/or obtain approval from the relevant regulatory authority prior to the resumption of work. On the other hand, COVID-19 had continued to spread globally since early 2020. In particular, the number of confirmed cases of COVID-19 in the U.S. had increased significantly since April 2020 and had led to temporary suspension of work and operations of companies and shops in the U.S., which in turn negatively impacted the demand of panel furniture from the U.S.. According to the F&S Report, the export value of PRC panel furniture to the U.S. is expected to decrease by approximately 20% from RMB19.0 billion in 2019 to RMB15.2 billion in 2020 due to the outbreak of COVID-19. The U.S. had gradually lifted restrictions on social distancing and lockdown measures imposed as a result of the COVID-19 pandemic and shops are reopening since May 2020. Furthermore, local governments had introduced relieving and/or economic stimulating measures to encourage people's spending. As advised by F&S, based on the information published by the U.S. Census Bureau, the retail sales of furniture products in the U.S. had started to increase since May 2020 and recorded a total sale of approximately USD10,451 million in September 2020 which is at a higher level than that of the corresponding period in 2019. The long term impact of COVID-19 on the global economy and the PRC furniture export market is subject to further development of the outbreak and the government advice, bans, lockdown and/or restrictions adopted in different countries. Prolonged outbreak of COVID-19 may pose significant impacts on our business operation and financial performance as discussed below.

Impact on the production and delivery of our products

In compliance with the relevant requirement imposed by the Jiangxi Provincial Government, our factories had suspended operations for 14 days following the Chinese New Year's holiday. All of our factories had subsequently resumed operations on 14 February 2020. Up to the Latest Practicable Date, all of our products had been or are expected to be delivered to our customers according to the agreed schedule. Further, after the Track Record Period and up to the Latest Practicable Date, there had been no material delay in the delivery from our suppliers.

As a result of (i) the temporary suspension of our production facilities; and (ii) the decrease in the orders received by us (in terms of transaction amounts) as our customers and/or their downstream customers were relatively conservative in placing orders given the outbreak of COVID-19 pandemic and the lockdown measures in the U.S. during the second quarter of 2020, our revenue had decreased by approximately 7.0% from approximately RMB1,753.0 million for 6MFY2019 to approximately RMB1,630.7 million for 6MFY2020. For details of the decrease in the orders received by us (in term of transaction amounts), please refer to the below paragraphs headed "Impact on the market demand of our products and our financial performance" in this section.

Impact on the market demand of our products and our financial performance

Our business model has remained unchanged since 30 June 2020. As discussed above, the outbreak of COVID-19 negatively impacted the demand of panel furniture from the U.S.. As the majority of our panel furniture is sold to the U.S. market to overseas retail chains directly or through our customers which were furniture traders, the outbreak of the COVID-19 and lockdown in the U.S. had a negative impact on the demand of our panel furniture.

The following table sets out certain of our financial and operational data for the period indicated below:

	6MFY2019	6MFY2020	Percentage change	July to September 2019	July to September 2020	Percentage change
	(unaudited)		%	*(unaudited)*	*(unaudited)*	%
Revenue *(RMB million)*	1,753.0	1,630.7	(7.0)	931.6	962.9	3.4
Gross profit margin *(%)*	24.0	22.5	(1.5)	23.7	23.4	(0.3)

The table below further sets out a breakdown of our revenue and gross profit margin by product types and geographical regions for the period indicated below:

	6MFY2019			6MFY2020			July to September 2019			July to September 2020		
	Revenue		Gross profit margin	Revenue		Gross profit margin	Revenue		Gross profit margin	Revenue		Gross profit margin
	RMB'000	%	%	*RMB'000*	%	%	*RMB'000*	%	%	*RMB'000*	%	%
	(unaudited)						*(unaudited)*			*(unaudited)*		
Panel furniture*(Note 1)*	1,685,252	96.1	23.7	1,499,899	92.0	21.8	844,901	90.7	22.9	892,292	92.6	22.9
Upholstered furniture	25,635	1.5	33.7	58,736	3.6	32.7	41,708	4.5	32.8	28,589	3.0	32.7
Others*(Note 2)*	42,138	2.4	28.4	72,107	4.4	28.2	44,974	4.8	30.6	42,044	4.4	28.1
Total/overall gross profit margin	**1,753,025**	**100.0**	**24.0**	**1,630,742**	**100.0**	**22.5**	**931,583**	**100.0**	**23.7**	**962,925**	**100.0**	**23.4**

Notes:

1. The revenue of panel furniture included the revenue from sales of particleboards, which was approximately RMB18.1 million and RMB6.4 million for each of the 6MFY2019 and 6MFY2020 and accounted for approximately 1.0% and 0.4% of our revenue for each of the respective period.

2. Others include outdoor furniture and sports and recreational equipment.

	6MFY2019			6MFY2020			July to September 2019			July to September 2020		
	Revenue		Gross profit margin	Revenue		Gross profit margin	Revenue		Gross profit margin	Revenue		Gross profit margin
	RMB'000	*%*	*%*	*RMB'000*	*%*	*%*	*RMB'000*	*%*	*%*	*RMB'000*	*%*	*%*
	(unaudited)						*(unaudited)*			*(unaudited)*		
United States	1,219,368	69.6	23.7	1,150,142	70.5	22.6	684,899	73.5	23.4	608,638	63.2	23.1
PRC	132,857	7.6	22.0	101,247	6.2	20.5	70,219	7.5	22.6	56,502	5.9	23.1
Singapore	114,808	6.5	25.1	73,482	4.5	21.6	21,199	2.3	25.4	29,470	3.1	23.5
Malaysia	61,351	3.5	25.5	42,280	2.6	21.7	10,174	1.1	23.7	25,894	2.7	22.7
Vietnam	55,147	3.1	26.5	33,370	2.1	20.5	9,447	1.0	24.0	14,449	1.5	25.7
Canada	29,557	1.7	26.4	26,563	1.6	22.9	24,072	2.6	24.3	16,710	1.7	23.2
Others	139,937	8.0	25.2	203,658	12.5	23.3	111,573	12.0	25.6	211,262	21.9	24.2
Total/overall gross profit margin	**1,753,025**	**100.0**	**24.0**	**1,630,742**	**100.0**	**22.5**	**931,583**	**100.0**	**23.7**	**962,925**	**100.0**	**23.4**

Note: There was no material change in our customer base during the 9MFY2020. The increase in revenue to other jurisdictions during the 9MFY2020 as compared to the corresponding period of 2019 was mainly due to the increase in delivery of our products to certain jurisdictions as requested by our customers during the 9MFY2020, which mainly included, the Philippines, Brazil, New Zealand and Thailand.

Based on the unaudited consolidated financial information of our Group for 9MFY2020, our revenue decreased by approximately RMB90.9 million, or 3.4% from approximately RMB2,684.6 million for the 9MFY2019 to approximately RMB2,593.7 million for the 9MFY2020. Such decrease in revenue was mainly (i) as a result of the temporary suspension of our production facilities for 14 days in February 2020 due to outbreak of the COVID-19 pandemic in the PRC; and (ii) the decrease in the orders received by us (in terms of transaction amounts) as our customers and/or their downstream were relatively conservative in placing orders given the outbreak of COVID-19 pandemic and the lockdown measures in the U.S. during the second quarter of 2020. We recorded a high rate of increase in revenue from the sales of both upholstered furniture and others in 9MFY2020 as compared to the corresponding period of 2019 mainly due to the fact that we had received more orders for upholstered furniture and other products (in terms of transaction amounts) from our customers during 9MFY2020 as compared with the corresponding period of 2019. Our revenue increased by approximately 3.4% from approximately RMB931.6 million for the period from July to September 2019 to approximately RMB962.9 million for the corresponding period of 2020. Our overall gross profit margin decreased slightly from approximately 23.9% for the 9MFY2019 to 22.8% for the 9MFY2020 mainly due to the temporary suspension of our production facilities in the first quarter of 2020. Furthermore, the average selling price of our panel furniture remained relatively stable at approximately RMB484 for the 6MFY2020 and RMB489 for the 9MFY2020. The overall utilisation rate for the production of our panel furniture for the 9MFY2020 was approximately 69.6% which improved as compared to 6MFY2020. The unaudited revenue and gross profit margin for the 9MFY2019 and 9MFY2020 included in this prospectus, have been agreed with the reporting accountants following their review under HKSRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified

Public Accountants. The information on the average selling price of our panel furniture for the 6MFY2020 and 9MFY2020 included in this prospectus have been checked by the reporting accountants.

Hypothetically and in the worst scenario, should our operation and sale be fully suspended due to unexpected situation arising from or in connection with the prolonged outbreak of COVID-19, we will remain financially viable for over 60 months from 30 June 2020. The key assumptions of the above worst case scenario include: (i) we will suspend operation after June 2020 and will not generate sales since July 2020, and trade receivables as at 30 June 2020 will be settled in or before September 2020 on a prudent basis taking into account the credit term and historical settlement pattern; (ii) we will only maintain minimal operations after suspension of operation and only our Directors, senior managements and a few staff will stay with us and the remaining direct labours, sales and administrative staff will be laid off in July 2020 and all relevant compensations will be paid out in August 2020; (iii) we will not draw down any unutilised banking facilities or incur new borrowings after 30 June 2020 but will continue to repay our existing bank borrowing, and these existing bank borrowings including principal and interests will be fully paid up in January 2024 according to their corresponding repayment schedule; (iv) we will receive interest income quarterly based on our bank deposit balance; (v) we will repay all the trade payables, bills, and other payables/accruals in accordance with the corresponding repayment requirement or schedule; (vi) we will receive net proceeds from the Global Offering (based on the low end of the indicative Offer Price range) in December 2020 and assume that only the 10% of the net proceeds from the Global Offering designated for general working capital purpose will be used by us; (vii) we will not incur capital expenditure after June 2020, including those for the expansion plans as set out in the section headed "Future Plans and Use of Proceeds"; (viii) no dividend will be declared and paid by us; and (ix) no discretionary bonus will be paid to our employees.

Notwithstanding the above, our Directors expect that the outbreak of COVID-19 would only have a short-term impact on the business and operation of our Group on the following basis:

1. As advised by F&S, it is estimated that the export value of PRC panel furniture to the U.S. will gradually recover from 2020 to 2024 at a CAGR of approximately 6.0% on the basis that, (i) export from the PRC and the export to the U.S. have experienced an upward trend from April 2020 to July 2020 and the increasing trend is expected to continue if the COVID-19 pandemic remains stable; (ii) the U.S. furniture market has long been relying on imports from other overseas countries, in particular the PRC; (iii) based on the projections for global economic growth released by the International Monetary Fund in October 2020, real GDP of the U.S. is expected to grow at 3.1% from 2020 to 2021, which indicated that the economy of the U.S. will gradually recover from the COVID-19 pandemic in 2021; (iv) as the U.S. government has come up with massive financial stimulus package to help relieve the economic impact of COVID-19 including measures to rescue smaller size businesses and expansion of unemployment benefits, the purchasing power and demand for furniture products in the U.S. are expected to remain stable in the future; (v) based on the information published by the U.S.

Census Bureau, the retail sales of furniture products in the U.S. had started to increase since May 2020 and recorded a total sale of approximately USD10,451 million in September 2020 which is at a higher level than that of the corresponding period in 2019; and (vi) according to the data published by the International Trade Centre, the value of imported PRC panel furniture to the U.S. was on an increasing trend from April to July 2020 and in particular, recorded an increase of approximately 9.9% from June 2020 to July 2020.

2. Based on the discussion with the Top Five Customers, we are of the view that, despite the outbreak of the COVID-19, demand for our products has been recovering in the second half of 2020. In particular, the Top Five Customers had confirmed that:

   (i) the decrease in the transaction amounts between us and the Top Five Customers in 6MFY2020 was primarily due to the more cautious attitude of their respective downstream customers in placing orders amid the outbreak of the COVID-19 pandemic;

   (ii) it is expected that the outbreak of the COVID-19 would only have a short-term impact on the demand on our products. Based on the understanding of the Top Five Customers, market demand for panel furniture products is expected to gradually recover in the second half of 2020 on the basis that (a) overseas retailers have been expanding their online sale as there is an increasing trend of online shopping among consumers; (b) the U.S. had gradually lifted restrictions on social distancing and lockdown measures imposed as a result of the COVID-19 pandemic and shops are reopening since May 2020; (c) local governments had introduced relieving and/or economic stimulating measures to encourage people's spending; and (d) people are more willing to spend on household items including furniture products given the ongoing travel restriction; and

(iii) the amount of orders (based on transaction amounts) placed with us by the majority of the Top Five Customers have rebounded in July and August 2020 to a similar level with the corresponding period in 2019 and are expected to further recover in the second half of 2020. Both the transaction amounts with and aggregate order amounts by Top Five Customers for the third quarter of 2020 have rebounded to a higher level as compared with the corresponding period in 2019 and the second quarter of 2020. The table below further sets out a breakdown of transaction amounts with and order amounts by Top Five Customers for the period indicated below:

	July to September 2019	**April to June 2020**	**July to September 2020**
	(unaudited)	*(unaudited)*	*(unaudited)*
Aggregate order amounts *(million)*	US$107.8	US$100.2	US$119.7
Transaction amounts *(RMB million)*			
— Walmart	230.3	188.2	229.7
— Home Nations Inc.	162.3	156.1	190.8
— Tianhong	144.3	125.7	155.6
— Senyue	131.7	123.3	128.4
— Carrie	105.4	103.0	123.3
Total	**774.0**	**696.3**	**827.8**

Subject to the development of the COVID-19 pandemic, the Top Five Customers do not foresee any material decrease in their transaction amounts with us in the remaining months in FY2020.

Given that (i) Walmart operates huge network of retail stores in the U.S. and the other overseas markets; and (ii) the downstream customers of the other Top Five Customers include sizable chain retailers, importers or traders in the U.S. and the other overseas markets, our Directors are of the view that they would be able to provide first-hand and updated information regarding the circumstances and market demand of our products in the U.S. and the overseas markets. Moreover, the total amount of orders (in term of transaction amounts) received by our Group has started to recover since July 2020. The total amounts of orders (in term of transaction amounts) received by our Group in July and August 2020 was slightly higher than that of the corresponding period in 2019 by approximately 1.4% and 2.5%, respectively. The total amounts of orders (in terms of transaction amounts) received by our Group in September 2020 had further increased by approximately 25.3% as compared with the corresponding period in 2019. Nevertheless, considering our financial performance for the 9MFY2020, in particular the impact of the COVID-19 pandemic on our financial results for the 6MFY2020, and on a conservative basis, our financial results for FY2020 may still be adversely affected by the COVID-19 pandemic and there may be a slight decrease in our revenue and gross profit, which may affect our net profit, for FY2020 as compared to that of FY2019.

If the COVID-19 pandemic is not contained in the near future, there may be other preventive measures and actions which may result in the temporary suspension of our production facilities and/or delay in the delivery of raw materials from our suppliers in the PRC and/or affect our sales. The COVID-19 may also continue to affect the overall global economy and market demand of our products. In such circumstances, our business and operation may be further affected. Please refer to the section headed "Risk factors — Risks Relating to the Industry — Our business may be affected by outbreaks and recurrence of epidemics, natural disasters, acts of war, terrorist acts, political unrest and other events which are beyond our control" for further details. Our Directors will continue to assess the impact of the outbreak of COVID-19 on our operations and financial performance and closely monitor our exposure to the risks and uncertainties in connection with COVID-19. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and when necessary.

Our Directors confirm that, save for the Listing expenses as disclosed in the paragraph headed "Listing Expenses" in this section and the impact of the COVID-19 pandemic, there has been no material adverse change in our financial or trading position since 30 June 2020 (being the date to which our latest audited consolidated financial statements were prepared) and up to the date of this prospectus, and no event has occurred since 30 June 2020 and up to the date of this prospectus which would materially affect the information shown in our consolidated financial statements presented in the Accountants' Report.

DIVIDENDS

We had not paid or declared dividend during the Track Record Period. We currently intend to recommend the declaration and distribution of not less than 40% of our Group's audited net profit for the year attributable to Shareholders for the financial year ending 31 December 2020 as final dividends to our Shareholders (according to their respective shareholdings in our Company as shown on the register of members of the Company on a date to be announced by us), subject to the terms of our Articles and compliance with applicable laws and regulations.

Nevertheless, we do not have a dividend policy specifying a dividend payout ratio and the dividend distribution record in the past or the proposed distribution for the year ending 31 December 2020 may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future. Declaration of dividends is subject to the discretion of our Directors depending on our Company's results of operations, cash flows, financial condition, future prospects, general economic conditions in the overseas market and other internal or external factors that may have an impact on the business or financial performance of our Company and other factors that our Directors may consider relevant. In addition, any declaration and payment as well as the amount of the dividends will be subject to the provisions of (i) our Articles, which provide that dividends may be declared by us at a general meeting, but no dividend shall be declared in excess of the amount recommended by the Board, and (ii) the applicable laws of the Cayman Islands, which provide that dividends may be paid out of the profits of a company or out of sums standing to the credit of its share premium account and that no dividend may be paid out of the share premium account unless, immediately following the date on which the dividend is paid, our Company is able to pay its debts as they fall due in the ordinary course of business. Under applicable PRC law, each of our subsidiaries in the PRC may only distribute after-tax profits after it has made allocations or allowances for recovery of accumulated losses and allocations to the statutory reserves.

GLOBAL OFFERING STATISTICS

	Based on an Offer Price of HK$1.57 per Offer Share	**Based on an Offer Price of HK$1.86 per Offer Share**
Market capitalisation at Listing *(HK$)*	4,710.0 million	5,580.0 million
Unaudited pro forma adjusted net tangible assets per Share *(HK$)*	1.41	1.48

Notes:

(1) The calculation of market capitalisation is based on 3,000,000,000 Shares expected to be in issue immediately upon completion of the Global Offering and Capitalisation Issue (without taking into account any Share which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme).

(2) The unaudited pro forma adjusted net tangible assets per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis that 3,000,000,000 Shares expected to be in issue immediately upon completion of the Global Offering and Capitalisation Issue (without taking into account any Share which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme).

LISTING EXPENSES

The estimated total expenses in connection with the Listing, calculated based on the mid-point of the indicative Offer Price range, are approximately RMB77.0 million (equivalent to HK$91.1 million, including the underwriting commission and other Listing expenses and fees (including SFC transaction levy and Stock Exchange trading fee)), which represented approximately 7.1% of the gross proceeds from the issue of the Offer Shares (calculated based on the mid-point of the indicative Offer Price range). Out of the total relevant expenses (i.e. RMB77.0 million), RMB37.9 million is to be capitalised (i.e. accounted for as deduction from equity) upon Listing, while the remaining RMB39.1 million was or is expected to be charged to our consolidated statements of profit or loss and other comprehensive income. Approximately RMB0.4 million, RMB11.2 million, RMB10.1 million and RMB1.9 million of the Listing expenses in relation to services already performed had been charged to our consolidated statements of profit or loss and other comprehensive income for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. The remaining amount of approximately RMB15.5 million is expected to be charged to our consolidated statements of profit or loss and other comprehensive income after the Track Record Period. The amount of Listing expenses is a current estimate for reference only and the final amount to be recognised to our consolidated statements of profit or loss and other comprehensive income is subject to audit and the then changes in variables and assumption.

USE OF PROCEEDS

We estimate that the net proceeds (i.e. gross proceeds net of the underwriting fees and commission and the estimated expenses payable by our Company) from the issue of the Offer Shares will be approximately HK$1,228.8 million (equivalent to RMB1,038.5 million), based on an Offer Price of HK$1.715 per Offer Share (being the mid-point of the indicative Offer Price range set forth on the "Important" page of this prospectus) and assuming that the Over-allotment Option is not exercised at all. We currently intend to apply such net proceeds from the Global Offering for the following purposes:

Use of proceeds	% of net proceeds *(approximately)*	HK$ million *(approximately)*	(equivalent to RMB million) *(approximately)*
Establish a new manufacturing factory, comprising of two factory compartments, which will focus on the manufacture of panel furniture and upholstered furniture	45.4%	555.6	469.6
Construction of the second phase of our Aigesen Factory	33.0%	405.5	342.7
Upgrading our production line in our existing production facilities by acquiring more advanced and automated machineries and equipment for our Huisen Furniture Factory	5.0%	61.5	52.0
Enhancing our product design, research and development capabilities	6.6%	83.4	70.4
General replenishment of working capital and other general corporate purpose	10.0%	122.8	103.8

We expect to use the proceeds in the FY2021, FY2022 and FY2023. Please refer to the section headed "Future Plans and Use of Proceeds" for further details.

NON-COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we did not fully comply with certain PRC laws and regulations, including, (i) lack of construction permits before the commencement of building construction; (ii) commencement of production prior to obtaining approval for completed construction project; (iii) lease out part of the buildings situated on an industrial land for commercial use; (iv) failure to make full social insurance contribution for employees; and (v) failure to make housing provident fund contributions for employees. Please refer to the section headed "Business — Non-compliance" for further details.

RISK FACTORS

There are certain risks involved in our operations which may be beyond our control. These risks are further described in the section headed "Risk Factors". You should read that entire section carefully before deciding whether to invest in the Offer Shares. Major risks we face include: (i) our sales to certain overseas markets, in particular to operators of overseas retail chains, are dependent on the relationship between such operators and their respective furniture traders; (ii) imposition of U.S. import tariff on our furniture products would increase our customers' purchase costs, affect the price competitiveness of our furniture products, and may adversely affect our results of operations; (iii) our business and prospect may be affected by the outbreak of COVID-19; (iv) we rely significantly on the overseas markets; (v) we do not have long-term purchase commitments with some of our customers, which expose us to potential volatility in our revenue and our sales and therefore our business may be materially and adversely affected in the event that we lose some or all of our major customers; and (vi) our business requires significant capital investments and a high level of working capital to sustain our operations and business growth.

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings. Certain other terms are defined in the section headed "Glossary of Technical Terms".

"3MFY2020"	the three months ended 31 March 2020
"6MFY2019"	the six months ended 30 June 2019
"6MFY2020"	the six months ended 30 June 2020
"9MFY2019"	the nine months ended 30 September 2019
"9MFY2020"	the nine months ended 30 September 2020
"Accountants' Report"	our accountants' report for the Track Record Period set out in Appendix I
"Adjusted Net Profit"	please refer to the definition of "Adjusted Net Profit" as set out in the section headed "Financial Information — Overview"
"Aigesen"	Ganzhou Aigesen Wood Panel Co., Limited* (贛州愛格森人造板有限公司), a limited liability company established under the laws of the PRC on 11 February 2015 and an indirect wholly owned subsidiary of our Company
"Aigesen Factory"	our factory located in Nankang, Ganzhou, Jiangxi Province, the PRC, owned and operated by Aigesen
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles" or "Articles of Association"	The amended and restated articles of association of our Company adopted on 2 December 2020 (as amended, supplemented or otherwise modified from time to time)
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"BDO China"	BDO China Shu Lun Pan Certified Public Accountants LLP Branch of Fujian (立信會計師事務所(特殊普通合夥)福建分所), the internal control consultant of our Company
"Board"	the board of Directors of our Company
"Business Day"	a day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business

"BVI"	British Virgin Islands
"CAGR"	Compound annual growth rate, a measurement to assess the growth rate of value over time
"Capital Injection Agreement"	the capital injection agreement* (增資協議) dated 25 January 2017 entered into between Huiming Wood, Mr. Zeng, Ms. Zeng ML and Shanghai Huarong, particulars of which are set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"Capitalisation Issue"	the issue of 2,249,900,000 new Shares to be made upon capitalisation of an amount of HK$224,990,000 standing to the credit of the share premium account of our Company as referred to in the section headed "Appendix V — Statutory and General Information — Further Information about our Company — 3. Resolutions in writing of our Shareholders passed on 2 December 2020"
"CARB"	the California Air Resources Board
"Carrie"	Carrie Investment Trading Company Limited (加利投資貿易有限公司), a limited liability company incorporated in Hong Kong on 13 September 2010, being one of the Top Five Customers and an Independent Third Party
"Cayman Islands Companies Law" or "Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant(s)"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant(s)"	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"close associate(s)"	has the meaning ascribed to it under the Listing Rules

"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
"Company" or "our Company"	Huisen Household International Group Limited (匯森家居國際集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 16 March 2018 under the Companies Law
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules, and in the context of this prospectus, means the controlling shareholders of our Company immediately after completion of the Global Offering and the Capitalisation Issue, being Mr. Zeng and Pure Cypress. Please refer to the section headed "Relationship with our Controlling Shareholders" for further details
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Countries subject to International Sanctions"	countries regarding which governments such as the United States or Australia, or governmental organisations, such as the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries
"COVID-19"	Coronavirus disease 2019 (COVID-19), an infections respiratory illness
"CSRC"	China Securities Regulatory Commission
"Cuba, Iran and Sudan Deliveries"	our goods delivered to Cuba, Iran and Sudan
"Deed of Indemnity"	the deed of indemnity dated 2 December 2020 and executed by our Controlling Shareholders with and in favour of our Company (for ourselves and as trustee for our subsidiaries stated therein), details of which are set out in the section headed "Appendix V — Statutory and General Information — Other Information — 17. Estate duty, tax and other indemnity"

"Deed of Non-competition"	the non-compete undertaking dated 2 December 2020 and executed by our Controlling Shareholders in favour of our Company, details of which are set out in the section headed "Relationship with our Controlling Shareholders — Deed of Non-competition"
"Director(s)"	the director(s) of our Company
"EIT"	the PRC enterprise income tax
"EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法)
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
"F&S"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company which prepared the F&S Report
"F&S Report"	an independent market report commissioned by us and prepared by F&S in relation to, among others, the panel furniture industry in the PRC and the U.S.
"FY2016"	the financial year ended 31 December 2016
"FY2017"	the financial year ended 31 December 2017
"FY2018"	the financial year ended 31 December 2018
"FY2019"	the financial year ended 31 December 2019
"FY2020"	the financial year ending 31 December 2020
"FY2021"	the financial year ending 31 December 2021
"FY2022"	the financial year ending 31 December 2022
"FY2023"	the financial year ending 31 December 2023
"GDP"	gross domestic product, the market value of all the finished goods and services produced during a specified period of time
"GEM"	GEM of the Stock Exchange
"Global Offering"	the Hong Kong Public Offering and the International Offering

"Gou Si Creative"	Gou Si Life Creative Home E-Commerce (Shenzhen) Co., Limited* (購私生活創意家居電子商務(深圳)有限公司), a limited liability company established under the laws of the PRC on 26 August 2015 and was then wholly owned by Huisen Furniture immediately prior to its disposal on 15 December 2017 and has become an Independent Third Party upon such disposal
"**GREEN** Application Form(s)"	the application form(s) to be completed by **HK eIPO White Form** Service Provider designated by our Company
"Group" or "our Group" or "we" or "our" or "us"	our Company and its subsidiaries, or where the context refers to any time prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses operated by such subsidiaries or their predecessors (as the case may be)
"Guarantee Agreement"	the guarantee agreement* (保証協議) dated 25 January 2017 entered into between Ms. Zeng RH, Huisen Furniture, Shanghai Huarong and Mr. Zeng, particulars of which are set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"Haze Everest"	Haze Everest Limited (嵐峰有限公司), a company incorporated in the BVI with limited liability on 8 January 2018 and a direct wholly owned subsidiary of our Company
"Hengda Wood"	Ganzhou Hengda Wood Co., Limited* (贛州恒達木業有限公司), a limited liability company established under the laws of the PRC on 22 July 2004, which was wholly owned by Zhongshang Tou Huisen prior to its disposal on 6 September 2018 and has become an Independent Third Party upon such disposal
"**HK eIPO White Form**"	the application for Hong Kong Offer Shares to be issued in the applicant's own name, submitted online through the designated website of the **HK eIPO White Form** at **www.hkeipo.hk** or the **IPO App**
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified on the designated website at **www.hkeipo.hk** or the **IPO App**
"HKFRS"	Hong Kong Financial Reporting Standard(s) and interpretation(s), issued by the HKICPA

"HK Huisen"	Huisen International Group Limited (匯森國際集團有限公司), formerly known as Huisen Household International Group Limited (匯森家居國際集團有限公司), a limited liability company incorporated in Hong Kong on 11 April 2018, and an indirect wholly owned subsidiary of our Company
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HK Tengda"	HK International Tengda Houseware Limited (香港國際騰達家居有限公司), a limited liability company incorporated in Hong Kong on 26 February 2013 and indirectly wholly owned by Mr. Zeng
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited, being the Hong Kong branch share registrar of our Company
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Offer Shares"	the 75,000,000 new Shares initially offered for subscription pursuant to the Hong Kong Public Offering, representing 10% of the total number of Offer Shares, subject to reallocation and adjustment as described in the section headed "Structure and Conditions of the Global Offering"
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by members of the public in Hong Kong (subject to reallocation and adjustment) for cash at the Offer Price, payable in full on application, and subject to the terms and conditions stated in this prospectus and in the Application Forms
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Underwriters — Hong Kong Underwriters"

"Hong Kong Underwriting Agreement"	the conditional Hong Kong underwriting agreement dated 11 December 2020 entered into between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters relating to the Hong Kong Public Offering, as described in the section headed "Underwriting — Underwriting Arrangements — The Hong Kong Public Offering — Hong Kong Underwriting Agreement"
"Huiming Ecological"	Jiangxi Huiming Ecological Home Technology Co., Limited* (江西匯明生態家居科技有限公司), a limited liability company established under the laws of the PRC on 2 December 2016 and was wholly owned by Huiming Wood immediately prior to its disposal on 1 September 2017 and has become an Independent Third Party upon such disposal
"Huiming Wood"	Ganzhou Huiming Wood Industry Co., Limited* (贛州匯明木業有限公司), a limited liability company established under the laws of the PRC on 23 October 2014 and an indirect wholly owned subsidiary of our Company
"Huiming Wood Factory"	our factory located in Nankang, Ganzhou, Jiangxi Province, the PRC, owned and operated by Huiming Wood
"Huisen Furniture"	Huisen Furniture (Longnan) Co., Limited* (匯森家具(龍南)有限公司), a limited liability company established under the laws of the PRC on 1 November 2005 and an indirect wholly owned subsidiary of our Company
"Huisen Furniture Factory"	our factory located in Longnan, Ganzhou, Jiangxi Province, the PRC and operated by Huisen Furniture
"Huisen Holding Investment"	Huisen Holding Investment (Ganzhou) Co., Limited* (匯森控股投資(贛州)有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on 16 July 2018 and an indirect wholly owned subsidiary of our Company
"Huisen Home Technology"	Huisen Smart Home Technology (Longnan) Co., Limited* (匯森智能家居科技(龍南)有限公司) (formerly known as Huisen Upholster Home Technology (Longnan) Co., Limited* (匯森軟體家居科技(龍南)有限公司)), a limited liability company established under the laws of the PRC on 11 July 2017 and an indirect wholly owned subsidiary of our Company

"Huisen Mingda"	Huisen Mingda (Longnan) Furniture Co., Limited*, (匯森明達(龍南)家具有限公司), a limited liability company established under the laws of the PRC on 24 April 2014 and an indirect wholly owned subsidiary of our Company
"Huisen Mingda Factory"	our factory located in Longnan, Ganzhou, Jiangxi Province, the PRC, owned and operated by Huisen Mingda
"IMF"	the International Monetary Fund
"Independent Third Party(ies)"	person(s) or company(ies) which is (are) not connected person(s) or core connected person(s) (both as defined in the Listing Rules) of our Company
"International Offer Shares"	the 675,000,000 new Shares, expected to be initially offered for subscription pursuant to the International Offering, representing 90% of the total number of the Offer Shares, subject to reallocation, adjustment and the Over-allotment Option as described in the section headed "Structure and Conditions of the Global Offering"
"International Offering"	the conditional offer of the International Offer Shares at the Offer Price to professional, institutional and private investors, as described in the section headed "Structure and Conditions of the Global Offering"
"International Sanctions"	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the European Union and its member states, United Nations or the Government of Australia
"International Sanctions Legal Advisers"	Hogan Lovells, our legal advisers as to International Sanctions laws in connection with the Listing
"International Underwriters"	the underwriters of the International Offering who are expected to enter into the International Underwriting Agreement
"International Underwriting Agreement"	the conditional international underwriting agreement relating to the International Offering and expected to be entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator and the International Underwriters

"Investment Agreements"	please refer to the definition of "Investment Agreements" as set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"IPO App"	the mobile application for **HK eIPO White Form** service which can be downloaded by searching "**IPO App**" in App Store or Google Play Store or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**
"Joint Bookrunners"	CSCI, Hung Sing Securities Limited, Lead Securities (HK) Limited and SBI China Capital Financial Services Limited
"Joint Lead Managers"	CSCI, Hung Sing Securities Limited, Lead Securities (HK) Limited and SBI China Capital Financial Services Limited
"Latest Practicable Date"	4 December 2020, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about Tuesday, 29 December 2020, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
"M&A Rules"	the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (《關於外國投資者併購境內企業的規定》), which were issued by MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry & Commerce of the PRC, China Securities Regulatory Commission and SAFE on August 8, 2006 and became effective on September 8, 2006, and were further amended by MOFCOM on June 22, 2009
"Macau"	the Macao Special Administrative Region of the PRC

"Main Board"	the stock market (excluding the options market) operated by the Stock Exchange and which is independent from and operated in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
"Market Value Guarantee Agreement"	the market value guarantee agreement* (市值保障協議) dated 25 January 2017 entered into between Shanghai Huarong, Mr. Zeng, Ms. Zeng RH and Huisen Furniture, particulars of which are set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company, conditionally adopted on 2 December 2020, which will become effective upon Listing (as amended, supplemented or otherwise modified from time to time)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部), as appropriate in the context
"Mr. Su"	Mr. Su Xinlin (蘇鑫林), an executive Director and chief financial officer of our Group
"Mr. Zeng"	Mr. Zeng Ming (曾明), an executive Director and chairman of our Board, and a Controlling Shareholder
"Ms. Zeng ML"	Ms. Zeng Minglan (曾明蘭), an executive Director, vice chairlady of our Board and the sister of Mr. Zeng
"Ms. Zeng RH"	Ms. Zeng Ronghua (曾榮華), the spouse of Mr. Zeng and the sister-in-law of Ms. Zeng ML
"Obligors"	collectively, our Company, Huisen Holding Investment, Mr. Zeng and Ms. Zeng RH
"OFAC"	the United States Department of Treasury's Office of Foreign Assets Control
"Offer Price"	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%) to be determined in the manner described in the section headed "Structure and Conditions of the Global Offering"

"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by our Company to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters under which we may be required to issue up to 112,500,000 additional new Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover any over-allocation in the International Offering, details of which are described in the section headed "Structure and Conditions of the Global Offering — Over-allotment Option"
"PRC" or "China"	the People's Republic of China which, for the purposes of this prospectus excludes Hong Kong, Macau and Taiwan
"PRC Legal Adviser"	AllBright Law Offices (Fuzhou), legal adviser to our Company as to PRC laws
"PRC Listing"	please refer to the definition of "PRC Listing" as set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"Price Determination Date"	the date, expected to be on or about Friday, 18 December 2020 on which the Offer Price will be fixed and in any event, no later than Sunday, 27 December 2020
"Purchase"	please refer to the definition of "Purchase" as set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"Pure Cypress"	Pure Cypress Limited (淳柏有限公司), a company incorporated in the BVI with limited liability on 11 December 2017 which is wholly owned by Mr. Zeng and a Controlling Shareholder
"Put Option"	please refer to the definition of "Put Option" as set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"Put Option Equity Interest"	please refer to the definition of "Put Option Equity Interest" as set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"

"Qualified PRC Listing"	please refer to the definition of "Qualified PRC Listing" as set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"R&D"	research and development
"Regulation S"	Regulation S under the U.S. Securities Act
"Relevant Countries"	Guinea, Lebanon, Libya, Myanmar, Russia and Somalia
"Reorganisation"	our corporate reorganisation in preparation for the Listing, as set out in the section headed "History, Reorganisation and Corporate Structure — Reorganisation"
"Repurchase Mandate"	a general and unconditional mandate granted to our Directors by the passing by our then Shareholders of resolutions referred to in paragraph 7 of Appendix V, pursuant to which our Directors may exercise the power of our Company to repurchase Shares, the aggregate number of which shall not exceed 10% of the aggregate number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme)
"RMB"	Renminbi yuan, the lawful currency of the PRC
"SAFE"	The State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"Senyue"	Hong Kong Senyue Industrial Co., Limited (香港森悅實業有限公司), a limited liability company incorporated in Hong Kong on 18 August 2015, being one of the Top Five Customers and an Independent Third Party
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
"Sanctioned Person(s)"	certain person(s) and identity(ies) listed on OFAC's Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the United States, European Union, United Nations or Australia

"SDN List"	the list of Specially Designated Nationals and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealing with U.S. persons
"Shanghai Huarong"	Shanghai Huarong Tongyuan Cultural Industry Investment and Development Co., Limited* (上海華融通遠文化產業投資發展有限公司), a limited liability company established under the laws of the PRC on 25 March 2016 and was a minority shareholder of Huiming Wood prior to 20 February 2019
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of our Company
"Shareholder(s)"	holder(s) of the Shares
"Shareholders' Agreement"	the shareholders' agreement* (股東協議) dated 25 January 2017 entered into between Huiming Wood, Mr. Zeng, Ms. Zeng ML and Shanghai Huarong (as amended by the Supplemental Shareholders' Agreement), particulars of which are set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"Share Option Scheme"	the share option scheme conditionally approved and adopted by us on 2 December 2020, a summary of its principal terms is set out in the section headed "Appendix V — Statutory and General Information — Other Information — 16. Share Option Scheme"
"Shortfall Supplement Agreement"	the shortfall supplement agreement* (差額補足協議) dated 25 January 2017 entered into between Shanghai Huarong, Mr. Zeng, Ms. Zeng RH and Huisen Furniture, particulars of which are set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"Sole Global Coordinator"	China Securities (International) Corporate Finance Company Limited
"Sole Sponsor" or "CSCI"	China Securities (International) Corporate Finance Company Limited, a licenced corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
"sq.m."	square metres

"Stabilising Manager"	SBI China Capital Financial Services Limited
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between the Stabilising Manager and Pure Cypress, pursuant to which the Stabilising Manager may borrow up to an aggregate of 112,500,000 Shares to cover any over-allocation in the International Offering
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Supplemental Guarantee Agreement"	the supplemental guarantee agreement* (保證協議之補充協議) dated 5 December 2018 entered into between Shanghai Huarong, Ms. Zeng RH, Huisen Furniture and Mr. Zeng for the termination of the Guarantee Agreement
"Supplemental Market Value Guarantee Agreement"	the supplemental market value guarantee agreement* (市值保障協議之補充協議) dated 5 December 2018 entered into between Shanghai Huarong, Mr. Zeng, Ms. Zeng RH and Huisen Furniture for the termination of the Market Value Guarantee Agreement
"Supplemental Shareholders' Agreement"	the supplemental shareholders' agreement* (股東協議之補充協議) dated 5 December 2018 entered into between Huiming Wood, Mr. Zeng, Ms. Zeng ML, Shanghai Huarong, Huisen Holding Investment, Ms. Zeng RH, our Company and Huisen Furniture, particulars of which are set out in the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood"
"Supplemental Shortfall Supplement Agreement"	the supplemental shortfall supplement agreement* (差額補足協議之補充協議) dated 5 December 2018 entered into between Shanghai Huarong, Mr. Zeng, Ms. Zeng RH and Huisen Furniture for the termination of the Shortfall Supplement Agreement
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs (as amended, supplemented or otherwise modified from time to time)

"Termination and Transfer Agreement"	the equity transfer agreement* (股權轉讓協議) dated 19 February 2019 entered into between Shanghai Huarong, Huisen Holding Investment, Mr. Zeng, Ms. Zeng ML, our Company, Ms. Zeng RH and Huisen Furniture, particulars of which are set out in the section headed "History, Reorganisation and Corporate Structure — Reorganisation — (7) Exercise of Put Option by Shanghai Huarong and completion of the acquisition of the remaining equity interest in Huiming Wood
"Tianhong"	Tianhong Investment Trading Co., Limited (天鴻投資貿易有限公司), a limited liability company incorporated in Hong Kong on 17 August 2015, being one of the Top Five Customers and an Independent Third Party
"Top Five Customers"	our top five customers during the Track Record Period, particulars of which are set out in the section headed "Business — Customers — Top five customers"
"Track Record Period"	the financial period comprising the three financial years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020
"Transferred Shares"	please refer to the definition of "Transferred Shares" as set out in the section headed "History, Reorganisation and Corporate Structure — Pre-IPO Investment"
"Underwriters"	collectively, the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	collectively, the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. Legal Advisers"	Loeb & Loeb LLP, the legal advisers to our Company as to U.S. laws
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated under it
"US$" or "U.S. dollars"	United States dollars, the lawful currency of U.S.
"USTR"	the Office of the United States Trade Representative

"Vantage Link"	Vantage Link Investments Limited, a company incorporated in the BVI with limited liability on 20 February 2014 which is wholly owned by Mr. Su and will be holding 1.875% of the issued share capital of our Company upon completion of the Global Offering and the Capitalisation Issue
"VAT"	value-added tax
"Walmart"	Walmart Inc. (formerly known as Wal-Mart Stores Inc.), an overseas retail chain and one of the Top Five Customers
"Weiye Jiankang"	Weiye Jiankang Technology (Longnan) Co., Limited* (偉業健康科技(龍南)有限公司) (formerly known as Lian (Longnan) Toy Co., Limited* (利安(龍南)玩具有限公司) and Weiye Hardware Furniture (Longnan) Co., Limited* (偉業五金家具(龍南)有限公司)), a limited liability company established under the laws of the PRC on 25 January 2007 and an indirect wholly owned subsidiary of our Company
"Weiye Jiankang Factory"	our factory located in Longnan, Ganzhou, Jiangxi Province, the PRC, owned and operated by Weiye Jiankang
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant's own name
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
"Zhongshang Tou Huisen"	Zhongshang Tou Huisen Home Group Co., Limited* (中商投匯森家居集團有限公司) (previously known as Xiamen Zhongshang Tou Huisen Home Co., Limited* (廈門中商投匯森家居有限公司)), a limited liability company established under the laws of the PRC on 6 January 2015 and owned as to 49% by Mr. Zeng and 51% by two Independent Third Parties
"%"	per cent

Terms marked with "*" are English translations of the original names in Chinese of the PRC nationals, entities, enterprises, organisations, institutions, government authorities, departments, facilities, awards, certificates, titles, laws and regulations concerned and are included in this prospectus for identification purpose only. In the event of any inconsistency, the Chinese name(s) shall prevail.

All times and dates refer to Hong Kong times and dates. Unless otherwise specified, references to years in this prospectus are to calendar years.

This glossary contains explanations of certain terms used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"actual production volume"	our actual production volume is calculated based on our actual output for the year ended 31 December (in respect of annual actual production volume) or for the six months ended 30 June (in respect of six months actual production volume)
"designed production capacity"	(i) our designed production capacity for panel furniture is calculated based on our board cutting capability (one of the key processes in panel furniture production flow), determined on the basis of 22 hours a day, 330 days a year (in respect of annual designed production capacity) or 165 days (in respect of six months designed production capacity) of operation
	(ii) our designed production capacity for particleboards is calculated on the basis of 24 hours a day, 220 days (in respect of period from the commencement of operation in May 2017 to 31 December 2017) or 330 days (in respect of annual designed production capacity) or 165 days (in respect of six months designed production capacity) of operation
	(iii) our designed production capacity for steel tubes is calculated based on the designed production capacity of the bottleneck of the production process of steel tubes of the relevant year, determined on the basis of 22 hours a day, 330 days a year of operation (in respect of annual designed production capacity) or 165 days (in respect of six months designed production capacity) of operation
	(iv) our designed production capacity for upholstered furniture is calculated based on the designed production capacity of sewing of the covers of our upholstered furniture of the relevant year, determined on the basis of 16 hours a day, 330 days a year (in respect of annual designed production capacity) or 165 days (in respect of six months designed production capacity) of operation
"engineered wood(s)"	a wood which is manufactured by binding strands, particles, fibres or veneers of wood with adhesive, to form composite materials

"Expansion Plans"	our business strategies in respect of (i) increase our production capacity for panel furniture and expansion of our product range in upholstered furniture; (ii) construction of the second phase of our Aigesen Factory; and (iii) upgrading our production line in our Huisen Furniture Factory as set out in the section headed "Business — Business Strategies"
"formaldehyde"	a colourless, toxic water-soluble gas which is known to be a probable human carcinogen and hazardous to human health
"functional and smart furniture"	our proposed product development to our furniture products which involves enhancing its functionality by incorporating certain electronic accessories and functions such as touch panel, motion sensor and temperature transducer. For further details, please refer to the section headed "Business — Business Strategies — Continue to strengthen our product design, research and development capabilities"
"MDF"	acronym of medium-density fibreboards, engineered wood boards manufactured by breaking down hardwood or softwood residuals into wood fibres, which are combined together with wax and adhesive, and forming panels by applying high temperature and pressure
"Metal Furniture Products"	panel furniture that involves the use of steel tubes
"ODM"	acronym for "original design manufacturing", whereby products are design in-house and manufactured which ultimately will be branded under the customer's brand for sale
"OEM"	acronym for "original equipment manufacturing", whereby products are manufactured in accordance with a customer's specifications for sale under the customer's or third-party's brand
"outdoor furniture"	furniture specifically designed for outdoor uses. It is typically made of weather-resistant materials such that it will be more tolerable to rain, sun or other outdoor elements
"panel furniture"	wooden furniture principally made of composite wood, which is made from wood fragments, such as chips, flakes, shavings or fragments and which, for the purposes of this prospectus only, excludes panels used for structural purposes, such as in walls and partitions

"particleboard"	an engineered wood product manufactured from wood particles, such as chips, shavings, sawdust, and an adhesive, which is pressed and extruded
"plywood"	an engineered wood product manufactured from thin sheets of veneer which are glued together with adjacent plies having their grain at right angles to each other for greater strength
"RTA furniture" or "K/D furniture"	acronyms for ready-to-assemble furniture and knock-down furniture, respectively, a form of furniture that is purchased in multiple pieces and requires assembly away from point-of-sale
"upholstered furniture"	furniture with sponge and fabric as the main body. For the purpose of this prospectus only, it mainly includes sofa and chair

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed "Summary", "Risk Factors", "Industry Overview", "Business", "Financial Information" and "Future Plans and Use of Proceeds". These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section "Risk Factors", which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies, plans, objectives and goals;
- the performance of global financial markets, including changes in our ability to access the capital markets and changes in the level of interest rates;
- the business opportunities that we may pursue;
- our dividend policy; and
- the amount and nature of, and potential for, future development of our business.

The words "aim", "anticipate", "believe", "can", "could", "estimate", "expect", "going forward", "intend", "may", "might", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future occurrence of such events. Actual outcomes may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- our ability to achieve growth of existing businesses and expansion of operations through investments;
- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting our operations, especially those related to the PRC;
- general political and global economic conditions, especially those related to the PRC, and macro-economic measures taken by the PRC government to management economic growth; and
- the other risk factors discussed in this prospectus as well as other factors beyond our control.

One or more of the above-mentioned risks or uncertainties may materialise.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section "Risk Factors".

Our operations involve certain risks and uncertainties, most of which are beyond of our control. You should carefully consider all the information in this prospectus including the risks and uncertainties described below before making an investment in our Shares.

There are certain risks relating to an investment in our Shares. These risks can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to our industry; and (iii) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS

Our sales to certain overseas markets, in particular to operators of overseas retail chains, are dependent on the relationship between such operators and their respective furniture traders

During the Track Record Period, our furniture products were mainly sold to the U.S. market on wholesale basis, including overseas retail chains directly or through our customers which were furniture traders which source and procure furniture products for overseas retail chains and importers. During each of the FY2017, FY2018, FY2019 and 6MFY2020, approximately 78.6%, 75.9%, 74.3% and 75.5% of our revenue was attributed to sales through furniture traders.

For each of the FY2017, FY2018, FY2019 and 6MFY2020, we exported our furniture products to 63, 56, 60 and 33 countries and regions worldwide. Our supplies to furniture traders are heavily dependent on the relationship between these furniture traders and the operators of retail chains and importers which is beyond our control. In the event of any disruption in the business relationships between the operators of these retail chains and the furniture traders, our business, financial position and results of operations could be adversely affected.

Our results of operations are directly affected by the business performance of the end customers of the furniture traders. If these end customers, who are mainly operators of retail chains, for whatever reasons, including problems specific to their own operations or macro-economic factors affecting the consumer sector in their home markets or otherwise, suffer a setback in their business performance, our sales will be adversely affected.

Imposition of U.S. import tariff on our furniture products would increase our customers' purchase costs, affect the price competitiveness of our furniture products, and may adversely affect our results of operations

Among the overseas markets to which our furniture products are exported to, the U.S. is our principal market, with the revenue derived from the sales of our furniture product with the U.S. as the delivery destination amounted to approximately RMB2,045.7 million, RMB2,308.1 million, RMB2,669.9 million and RMB1,150.1 million, respectively, for each of FY2017, FY2018, FY2019 and 6MFY2020, representing about 72.4%, 69.4%, 71.8% and 70.5% of our total revenue during the corresponding year/period, respectively. Since 2018, there have been reports from the U.S. and the PRC regarding the potential imposition of tariffs on goods manufactured in each of these countries and exported for sale to the other country. In particular, the USTR had announced that the United States raised the tariff to 10% with effect from 24 September 2018 on various products imported from the PRC to the U.S. and such tariff rate was subsequently increased to 25% with effect from 10 May 2019. In August 2019, the USTR published the fourth list of tariff which came into effect on 1 September 2019 at an initial rate of 15%, which was subsequently reduced to 7.5% on 13 December 2019. On 15 January 2020, the U.S. and the PRC government signed the phase one agreement trade deal, pursuant to which, a proposed additional tariff on about US$162 billion of Chinese goods had been suspended. However, the U.S. tariffs levied on the imported Chinese goods under the third and fourth tariff lists would remain at 25% and 7.5%, respectively. To the best knowledge, information and belief of our Directors, all of our panel furniture, upholstered furniture and outdoor furniture products exported to the U.S. were included in the third tariff list and all of our sports and recreational equipment were included in the fourth list of tariff and therefore would be subject to the additional tariffs imposed by the U.S. government. The imposition of U.S. import tariff on our furniture products would increase our customers' purchase costs, adversely affect the price competitiveness of our furniture products and, in turn, could adversely impact the demand for our furniture products in the U.S.. If our customers having to pay those tariffs fail to pass these costs onto their customers or otherwise increase their selling prices, it may materially and adversely affect our sales volume and revenue from products export to the U.S.. There is no assurance that our customers would not request us to lower the price of our products or shift their orders currently placed with us to our competitors which offer a lower product price or located in other countries when time goes on. In that case, our business and results of operation may be adversely affected. In addition, the U.S.-China trade tension remains and it is uncertain whether any further measures will be taken. It is possible that our products exported to the U.S. could be subject to further increased tariffs, or there will be changes in the U.S. or Chinese trade policy that could trigger retaliatory actions or a potential 'trade war' between China and the U.S., which may have an adverse effect on our business and results of operation.

Our business and prospect may be affected by the outbreak of COVID-19

In early 2020, the PRC and certain countries around the world encountered an outbreak of the COVID-19. Since the outbreak of the COVID-19 pandemic across the PRC, a number of provinces and municipalities in the PRC have taken emergency public health measures and various actions to prevent the spread of COVID-19. If the outbreak of COVID-19 is not contained in the near future, other measures and actions, including, among others, additional requirements on prevention measures of enterprises, further suspension of work, travel restrictions and/or traffic control measures in various cities in the PRC which may result in the temporary suspension of our production facilities and/or delay in the delivery of raw materials from our suppliers in the PRC and/or affect our sales which may be caused by disruption to the logistics network in the PRC. In addition, if our employees are infected with COVID-19, quarantines or temporary closures to our production facilities may be required. In such circumstances, it may not be feasible for us to manufacture and deliver our products to our customers in a timely manner and our business and financial performance will be adversely affected. Further, if the COVID-19 pandemic around the globe is further intensified, it may lead to prolonged travel restriction and further suspension of operations of business, which may affect the overall global economy in turn affect the business and operation of our customers and result in delay in payment of our customers and/or reduction of placing purchase orders by our customers to us due to the decline in market demand of our products. Such circumstances may have an adverse effect on our business, results of operation, financial condition and prospects.

We rely significantly on the overseas markets

During the Track Record Period, over 90.0% of the sales of our furniture products, including direct sales to overseas retail chains and sales through furniture traders, was attributable to customers located in the overseas markets. We anticipate that our furniture export sales will continue to be significant to our revenue in the future. As a result, our performance depends significantly on general economic conditions in the overseas markets and their impact on consumer confidence and discretionary consumer spending. Any change in the global trade of the overseas market, including tightening regulatory restrictions, industry-specific quotas, tariffs, non-tariff barriers and taxes, may have an adverse effect on our business performance, financial condition and results of operations.

We do not have long-term purchase commitments with some of our customers, so our sales may fluctuate depending on the profitability of our customers' businesses and the spending power of the consumers. Our results of operations are also largely affected by the level of consumer demand for our products in the overseas markets which is in turn influenced by a number of factors, some of which are beyond our control. In the event of significant increase in the cost of raw material for the production of our furniture products, we may not be able to pass such increasing cost to our customers. An economic downturn in the overseas markets or uncertainties regarding future prospects may affect consumer demand for our products as end consumers may choose to defer or delay furniture product purchases, which could have an adverse effect on the placing of orders by our customers. Furthermore, when overseas economy rebounds, consumer preferences may shift towards more expensive and/or high end furniture products that we may not offer, which could adversely impact on our sales and results of operations. We may not be able to respond quickly to any economic, market or regulatory changes in the overseas markets which our customers are located in, and any failure to do so may cause an adverse effect on our business performance, financial condition and results of operations.

We do not have long-term purchase commitments with some of our customers, which expose us to potential volatility in our revenue and our sales and therefore our business may be materially and adversely affected in the event that we lose some or all of our major customers

We do not have long-term purchase commitments with some of our customers and our sales are made on the basis of individual production orders. Our customers may cancel or defer production orders. Our customers' production orders may vary from period to period, and it is difficult to forecast future order quantities. Our customers may decrease the number of production orders they place with us in the future and/or place production orders with lower volume, or at the lower margin, as compared to prior periods. We may not be able to locate alternative customers to replace purchase orders or sales. The volume or margin of our customers' production orders may not be consistent with our expectations when we plan our expenditures. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

Our sales to the Top Five Customers during each of the FY2017, FY2018, FY2019 and 6MFY2020 amounted to approximately RMB2,431.3 million, RMB2,650.8 million, RMB3,132.2 million and RMB1,379.4 million, respectively, which accounted for approximately 86.1%, 79.7%, 84.2% and 84.6%, respectively, of our total revenue for the respective years/period. During the same year/period, sales to our largest customer accounted for approximately 20.7%, 22.0%, 23.9% and 24.1% of our total revenue, respectively.

Up to the Latest Practicable Date, the Top Five Customers have approximately five to eight years of business relationships with us. If any of the Top Five Customers ceases to do business with us, or substantially reduces the volume of its business with us for any reason, and if we are unable to secure new customers with comparable sales volume and profit margins, our profitability and financial position may be materially and adversely affected.

Given our dependence on our major customers, our credit risk is also concentrated. Our trade receivables from the Top Five Customers as at 31 December 2017, 2018 and 2019 and 30 June 2020 amounted to approximately RMB676.6 million, RMB747.9 million, RMB940.0 million and RMB694.2 million, respectively, representing approximately 86.9%, 84.6%, 89.1% and 88.2% of our total trade receivables as at each of these dates, respectively. If we experiences any material default in settlement by any one of our major customers, our financial position and results of operations may be materially and adversely affected.

An increase in costs of production materials or our inability to procure production materials at satisfactory prices may adversely affect our profitability

The principal production materials used in our production processes include particleboards and MDFs. Cost of materials consumed accounted for approximately 80.5%, 81.6%, 82.9% and 81.4% of our cost of sales for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Particleboards and MDFs (as principal materials for the production of our panel furniture) accounted for approximately 79.0%, 79.9%, 78.0% and 77.1% of the cost of materials consumed for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively.

We source all of our production materials in the PRC. The prices of the production materials may fluctuate due to various factors such as general market conditions and the availability of alternative comparable materials. As we do not enter into any long-term supply agreements with our suppliers for our production material, we are subject to risks from fluctuations in production materials costs and the risk of not being able to purchase sufficient quantities of production materials to meet our production requirements. If we are unable to obtain production materials at satisfactory prices or unable to pass increased costs on to our customers, our profitability and hence financial performance may be adversely affected. Furthermore, increasing prices of our products may adversely affect the demand from our customers.

Our business requires significant capital investments and a high level of working capital to sustain our operations and business growth

Our business is capital intensive and we depend on cash generated from our operations as well as external financing to operate and expand our business. We made substantial investment in production machineries and equipment. For each of the FY2017, FY2018, FY2019 and 6MFY2020, our capital expenditure amounted to approximately RMB103.2 million, RMB33.9 million, RMB28.4 million and RMB20.4 million, respectively. Our future funding requirements will depend, to a large extent, on our working capital requirements and the nature of our capital expenditures, our business performance, market conditions and other factors which are beyond the control and anticipation of our management. Any tightening of credit control may increase the interest expenses on our bank borrowings and create difficulties for us to renew existing banking facilities and/or obtain additional sources of debt financing, which may affect the amount of banking facilities available to us.

Any increase in the interest rates could cause our finance costs to increase. For illustration purposes only, if the applicable interest rates in respect of the variable-rate bank borrowings outstanding for each of the FY2017, FY2018, FY2019 and 6MFY2020 had been 25 basis points higher and all other variables were held constant, our profit for each of the FY2017, FY2018, FY2019 and 6MFY2020 would have been decreased by approximately RMB0.7 million, RMB1.1 million, RMB0.5 million and RMB0.5 million, respectively. The lender may withdraw facilities, request for early repayment of outstanding loans or increase in the amount of pledges for secured borrowings.

Furthermore, if we require additional debt financing, the lenders may require us to agree on restrictive covenants that could limit our flexibility in conducting future business activities. We need substantial capital expenditures to maintain and continuously upgrade and expand our production facilities and R&D functions to keep pace with the competitive landscape and changing requirements in our industry.

In addition, we plan to continue expanding our product range to tap into new potential markets. We expect to fund our capital expenditures through internally-generated cash flow, bank borrowings, and the net proceeds we receive from the Global Offering. Our ability to obtain financing through bank borrowings, or debt or equity financing, will depend on our financial condition and results of operations, the performance of our industry, and political and economic conditions in the PRC. Please refer to the section headed "Business — Business Strategies" for details on our expansion plan.

We may not be able to obtain adequate funds on acceptable terms, or at all. If capital is unavailable, we may be forced to curtail our expansion plans, which could result in an inability to successfully implement our business strategy.

Rising labour costs would reduce our margins and profitability and labour shortage could disrupt our production or expansion plans

Our manufacturing process is labour intensive. As at 30 June 2020, we had 2,722 workers in our production and manufacturing department. For each of the FY2017, FY2018, FY2019 and 6MFY2020, direct labour costs amounted to approximately RMB105.9 million, RMB156.2 million, RMB185.0 million and RMB91.7 million, respectively, representing approximately 4.9%, 6.1%, 6.5% and 7.3% of our total cost of sales, respectively. In recent years, average labour costs in the PRC have increased due to higher living standards. According to the F&S Report, the annual salary of employee from urban manufacturer companies in the Jiangxi Province has increased from approximately RMB42,976.0 in 2014 to RMB65,513.6 in 2019, representing a CAGR of approximately 8.8%. A further significant increase in labour costs in the PRC, in particular in Jiangxi Province where our operating subsidiaries in the PRC are located, could adversely affect our margins and profitability. We may not be able to retain and recruit suitably qualified workers in sufficient numbers and in time for our existing and future manufacturing operations at reasonable costs or at all, and any prolonged shortage of labour could materially and adversely affect our operations, relationships with our customers, our market reputation and financial results.

Our products are subject to safety, health and quality standards and requirements that may from time to time be imposed by either the government or by customers which may increase our costs or restrict our operations

Our products are subject to safety, health and quality standards and requirements imposed either by the PRC government or the government of the jurisdictions to which our products are exported, or by our customers. For example, composite wood products sold to the U.S. must comply with the formaldehyde emission standards under Californian law, wood products exported to the U.S. must be accompanied with a valid proof of their origins and other information relating to the raw materials thereof, and certain safety standard (such as paint and heavy metal contents) of furniture for children. The adhesive used by us for production of our own particleboards had been adapted to minimise the emission of formaldehyde and to comply with the relevant formaldehyde emission standards. Aigesen has been certified as CARB certified manufacturer since 2017, meaning that we are able to produce particleboards compliant with the formaldehyde-emission standards under Californian law. At the request of some of our customers we also procure MDFs from CARB-certified suppliers to ensure that our panel furniture sold to the U.S. complies with the relevant formaldehyde-emission requirements. Our customers may also request higher quality standards requirements on our furniture products from time to time. The failure by us to comply, or the allegation of such non-compliance, with any present or future safety, health or quality standards or requirements could result in loss of customer contracts or a cessation of operations and damage to our reputation. In order to comply with these standards or requirements, we may have to incur significant expenses to acquire costly equipment and increase our production cost significantly, and our results of operations and profitability could be materially and adversely affected.

We may be subject to anti-dumping duties or trade quotas with respect to overseas sales, which could adversely affect our business and results of operations

During each of the FY2017, FY2018, FY2019 and 6MFY2020, approximately 94.6%, 91.5%, 92.4% and 93.8% of our furniture products sales was attributable to sales to overseas markets, respectively, including the U.S., Canada, Singapore, Malaysia, Vietnam and various countries in Europe and Africa. Any trade restrictions such as anti-dumping duties, tariffs or quota fees imposed by the countries to which our products are exported, or a trade war involving our products could significantly increase the prices of our products, escalate our compliance costs or even restrict the sale of our products in such countries and eventually harm our sales. If any of these overseas markets imposes any trade restrictions on our products, or the PRC is involved in a trade war with other countries to which our products are exported in the future, our profit margins could be adversely affected, which could harm our financial position, business or results of operations. If we are subject to any anti-dumping allegation or investigation, we may need to incur extensive legal costs and divert the effort of our management in defending against such allegation or investigation, and the sales of our products in the relevant country may be adversely affected if we do not succeed in these proceedings.

There are non-compliances of laws and regulations in connection with our operations in the PRC which may lead to enforcement actions being taken against us, and any adverse change in government regulations may materially and adversely affect our operations and financial condition

During the Track Record Period and/or up to the Latest Practicable Date, there were non-compliances of laws and regulations in connection with our operations in the PRC. These include (i) lack of construction permits before the commencement of building construction; (ii) commencement of production prior to obtaining approval for completed construction project; (iii) lease out part of the buildings situated on an industrial land for commercial use ; (iv) failure to make full social insurance contribution for employees; and (v) failure to make housing provident fund contributions for employees. For details of these non-compliances, their legal ratifications, legal consequences and potential penalty, please refer to the section headed "Business — Non-compliance". In the event of any enforcement action being taken against us in the future, such action could adversely affect our business operations and financial performance.

Our principal business operations are based in the PRC. As at the Latest Practicable Date, we have obtained all licences necessary for carrying on our businesses. Should there be any changes in the regulatory requirements and we are not able to comply with them in a timely manner or if compliance of these requirements involved substantial costs, our business, results of operation and financial position may be adversely affected.

We may not be able to continuously enhance our design and development capability

Our competitiveness in the furniture market depends in large on our R&D department's ability to translate complex conceptual designs into final products according to the requirements of our customers as well as development of new products. In the event that we fail to enhance our R&D capability to develop prototype and final products based on our customers' requirements or develop new products to meet the ever changing preferences and/or demands of our customers in a timely manner, we may not be able to distinguish ourselves from other competitors or be surpassed by our competitors and be in an adverse situation, and hence causing adverse impact to our operating results and future development. As such, we believe our ability to be continuously successful and remain competitive in the industry depends heavily on our R&D capability. If our R&D capability were to deteriorate significantly as a result of a loss of key R&D personnel to which we cannot adapt in a timely manner, or other reasons, we could lose significant market share to competitors.

We may be subject to intellectual property infringement claims or other allegations by third parties and there may be copycat competition, which may materially and adversely affect our operations and financial condition

We may be subject to intellectual property claims or other allegations by third parties for products manufactured by us in the ordinary course of business while we primarily focus on the manufacture and sales of panel furniture by way of ODM whereby our products are designed and developed by us. On the other hand, for OEM products, we produce them strictly in accordance with the specifications provided by our customers. As panel furniture are considered as fast-moving consumer goods with product life cycle ranging from three to five years, and consumers are generally more appreciative of the less costly but more fashionable and trendy designed products, our panel furniture do not generally carry unique, novel or sophisticated appearances or with special functionalities or utilities that may be registrable as registered design or patent under the intellectual property rights laws, or it may not be otherwise cost-efficient for us to register such design given the nature of these products. Similarly, designs of panel furniture by our customers for our OEM products or other third parties may also be unregistrable or otherwise unregistered and therefore such information may not be publicly searchable. As a result, we have to primarily rely upon communication with our customers on any complaints or negative feedbacks in relation to any potential infringement of third-party intellectual property rights of our panel furniture, and there is no assurance that our internal control measures to prevent infringement of third party's intellectual property rights, some of which are set out in the section headed "Business — Research and Development", are sufficient, and we are unable to assure that our design and/or our customers would not infringe any third parties' intellectual property rights. As of the Latest Practicable Date, we did not encounter any material claims for intellectual property infringement. We cannot rule out the possibility of third parties claiming that we are infringing or contributing to the infringement of their intellectual property rights. If we are found to have violated the intellectual property rights of others, we may be prohibited from using such intellectual property or be forced to develop alternatives, or may be required to obtain licenses for use of such intellectual property rights. There is no assurance that we will be able to obtain such licenses on commercially reasonable terms, if at all. Our inability to obtain these licenses on commercially reasonable terms could have a material adverse impact on our business, operating results, financial condition or prospects. Any litigation regarding intellectual property rights could be costly and time consuming and divert the time and attention of our management. In addition, any intellectual property litigation involves significant risks. We may incur substantial expenses in defending against these third party infringement claims, regardless of their merit. Successful infringement claims against us may result in substantial monetary liabilities, and we may be required to refrain from further sale of our products, develop non-infringing products or enter into costly licensing agreements on an on-going basis. Any similar claim against us, even without any merit, could also hurt our reputation and brand image. Therefore, any intellectual property litigation or successful claim could have a material adverse effect on our business, operating results or financial condition.

Moreover, there may be copycat products of the furniture products we sold to our customers. Demand for our products may be adversely affected should there be any copycat products and in which case, our performance and business operations may be adversely affected.

We may not succeed in implementing our business strategies and future expansion plan

Our business strategies and future expansion plans as proposed in this prospectus may not be successful as there are a number of factors which are beyond our control and may affect our business prospects such as economic and political conditions, global economic conditions, change in government regulations and customers' behaviour. In particular, we may not be able to expand our product offering in upholstered furniture to tap into new potential markets. Furthermore, upgrading of our production line in our existing production facilities may put pressure on our financial and operational resources. If we are unable to manage our business strategies or expansion plan or the rising costs associated with such expansion plan effectively, our financial condition and result of operation may be adversely affected.

Any natural disaster or significant disruption to our operations at our manufacturing facilities may adversely affect our operations and financial performance

Power failures or disruptions, the breakdown, failure or substandard performance of machineries and equipment, the destruction of buildings, and other facilities due to fire or natural disasters such as hurricanes, severe winter storms, flood, droughts or earthquakes would severely affect our ability to continue our operations, delay our delivery schedules and may cause significant property damage and personal injuries. As at the Latest Practicable Date, we did not carry any business interruption insurance and our insurance policies may not be sufficient to compensate us for damages of such buildings, equipment and infrastructure. In addition, there are certain types of losses, such as from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters, for which we cannot obtain insurance at a reasonable cost or at all. Any such events and any losses or liabilities that are not covered by our current insurance policies could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our insurance coverage may not be sufficient to cover the risks related to our product liability, operations and losses

Our operations are subject to hazards and risks associated with our manufacturing operations, which may cause significant harm to persons or damage to properties. The major hazards and risks associated with our manufacturing operations includes destruction of buildings, other facilities, raw materials and inventories due to fire and the risk of selling furniture products that are unsafe or defective. We maintain insurance for certain of our office premises, machineries, manufacturing facilities and inventories in the PRC. Our insurance policies may not be adequate to cover all losses incurred. Losses incurred and associated liabilities may have a material adverse effect on our results of operations if such losses or liabilities are not covered by our insurance policies.

We produce and sell furniture products and are therefore exposed to risks of product liability claims, such as unsafe or defective products and inadequacy of warnings and instructions on the usage of our products. Product liability claims may arise in the event that the use or misuse of any of our products results in personal injury or property damage. As advised by our PRC Legal Adviser, product liability insurance for our products is not mandatory under the PRC law. If any successful product liability claim is brought against us for damages, our financial condition could be affected whether or not such claim is covered by insurance. If we are required to indemnify our customers, we may also incur significant costs. Additionally, in the event that any of our products proves to be defective, we may be required to recall or redesign such products. If we are found to be liable for a product liability claim, we could be required to pay substantial monetary damages. Even if we successfully defend ourselves against a claim, we could be forced to spend a substantial amount of money and time in defending such a claim and our reputation and future prospects could suffer.

We are subject to foreign exchange exposure and currency conversion risks

Our foreign exchange risk arises mainly from the mismatch between the currencies of our sales, purchases and operating expenses. During the Track Record Period, most of our expenditures incurred in daily operations and capital expenditures were denominated in RMB, while our sales were mainly denominated and settled in US$. Our US$ denominated financial assets as at 31 December 2017, 2018, 2019 and 30 June 2020 represented mainly trade receivables, cash and cash equivalents and borrowings. For the FY2017, FY2018, FY2019 and 6MFY2020, we recorded net foreign exchange gains (losses) of approximately RMB(48.7) million, RMB30.7 million, RMB2.8 million and RMB10.9 million, respectively.

During the Track Record Period, we had not adopted any financial instrument to hedge our foreign currency exchange risks. Appreciation of RMB would reduce the income from overseas sales in terms of RMB, which may affect our financial conditions and profitability. For illustration purposes only, assuming that RMB had strengthened against US$ by 1.0%, our net profit as at 31 December 2017, 2018 and 2019 and 30 June 2020 could have been decreased by approximately RMB4.9 million, RMB6.4 million, RMB7.8 million and RMB5.8 million, respectively. We cannot predict the impact of future exchange rate fluctuations on our results of operations. In the event of appreciation of RMB against US$, our profit margin will be affected if we are unable to transfer such additional cost to our customers, and our profitability and financial performance may suffer.

We face credit risks with respect to the settlement by our customers

We are exposed to credit risk in relation to our trade receivables. We typically grant a credit term of up to 90 days for our export sales customers and up to 30 days for our domestic sales customers. We may not be able to receive payment for our products on time. During the Track Record Period, our average trade receivables turnover day was 98 days, 91 days, 95 days and 103 days, respectively. We may not be able to fully recover our trade receivables from our customers, or that they will be settled on a timely basis. If any of our customers face unexpected situations, including but not limited to financial difficulties caused by general economic downturn, we may not be able to receive payment of uncollected debts in full or at all from such customers and we may need to make provision for our trade receivables, which could in turn materially and adversely affect our financial condition and results of operations.

We face the risk of obsolescence of our inventory

The amount of our inventory, which consists of raw materials, work-in progress and finished goods amounted to approximately RMB290.5 million, RMB228.6 million, RMB171.4 million and RMB142.1 million as at 31 December 2017, 2018 and 2019 and 30 June 2020. Our inventory turnover days was 40 days, 37 days, 26 days and 23 days for each of FY2017, FY2018, FY2019 and 6MFY2020, respectively.

We monitor our inventory level from time to time. Hence, we may purchase additional raw materials based on the inventory level to cater for additional order for products from our customers. We may not correctly anticipate the expected increase in sales volume of our products. Overestimating our upcoming sales may lead to excess inventories of our raw materials. Also, finished goods may be returned by our customers due to product quality issues, delayed or wrong delivery and such returned finished goods may become obsolete if it is no longer sold again.

We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities.

The United States and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we delivered certain furniture products to the Relevant Countries, which are subject to certain sanctions programs and our revenue generated from sales to the Relevant Countries amounted to approximately RMB1.9 million, RMB1.0 million, nil and nil, representing approximately 0.07%, 0.03%, nil and nil of our total revenue for the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Apart from the deliveries to the Relevant Countries, we had delivered our products to Cuba, Iran and Sudan from 2014 to 2016. Please refer to the section headed "Business — Business Activities in Countries subject to International Sanctions" for further details. We are advised by our International Sanctions Legal Advisers that apart from the Cuba, Iran and Sudan Deliveries, our business activities with the Relevant Countries do not appear to have implicated any violation of International Sanctions.

The Cuba, Iran and Sudan Deliveries involved seven payments in an aggregate amount of US$445,184 from five customers located in Hong Kong and the United States from 2014 to 2016 that were denominated in U.S. dollars and were processed through the U.S. financial system before they were received by us. As advised by our International Sanctions Legal Advisers, the Cuba, Iran and Sudan Deliveries appear to be a potential violation of U.S. sanctions regulations that are applicable to transactions with Cuba, Iran and Sudan. Please refer to the section headed "Business — Business Activities in Countries subject to International Sanctions" for further details.

While we have implemented internal control measures to minimise our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of United States, the European Union, the United Nations, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of us. For details of our business operations in the Countries subject to International Sanctions and our undertakings to the Stock Exchange and its related group companies, please refer to the section headed "Business — Business Activities in Countries subject to International Sanctions".

Any changes in our tax treatment may have a material adverse impact on our financial condition and results of operations

Pursuant to the Notice of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Issues concerning the Implementation of the Tax Policies for the Development of Western China by Ganzhou* 財政部、海關總署、國家税務總局《關於贛州市執行西部大開發税收政策問題的通知》(財税[2013]4號)and Notice of the Jiangxi Provincial Department of Finance, the Jiangxi Provincial State Taxation Bureau and the Local Taxation Bureau of Jiangxi Province on Issues concerning the Implementation of the Policies for the Development of Western China by Ganzhou in respect of EIT* 江西省財政廳、江西省國家税務局、江西省地方税務局《關於深入實施贛州市執行西部大開發政策有關企業所得税問題的公告》(2013年第1號), Huiming Wood, Huisen Furniture and Huisen Mingda, are expected to be eligible to enjoy preferential tax treatment, subject to fulfilment of the necessary requirements, until 31 December 2030. Under these notices, foreign invested enterprise or domestic invested enterprise which conducts annual filing and fulfils the necessary requirements will only be subject to EIT at a statutory rate of 15% on the assessable income derived. Pursuant to the Announcement on Continuation of EIT Policies for the Development of Western China ((財政部、國家稅務總局、國家發展改革委《關於延續西部大開發企業所得稅政策的公告》(財政部公告2020年第23號)) which was promulgated by the Ministry of Finance, the State Administration of Taxation and the National Development and Reform Commission on 30 April 2020 and will become effective on 1 January 2021, Huiming Wood, Huisen Furniture and Huisen Mingda, are expected to be eligible to enjoy preferential tax treatment aforementioned, subject to fulfillment of the necessary requirements, during the period from 1 January 2021 to 31 December 2030. Each of Huiming Wood, Huisen Furniture and Huisen Mingda was subject to EIT at the tax concession rate of 15% during the Track Record Period. The amount of tax exemptions granted to our relevant PRC subsidiaries was approximately RMB41.8 million, RMB60.2 million, RMB66.9 million and RMB27.6 million for FY2017, FY2018, FY2019 and 6MFY2020, respectively. Please refer to Note 14 to the Accountants' Report for further details on amount of tax exemptions granted to us during the Track Record Period.

There may be changes in the applicable laws and regulations in the PRC that may affect our eligibility for, or the extent of, any such preferential tax treatment. Any cessation or adverse change to such preferential tax treatment may materially and adversely affect our operations and financial results.

We are a holding company that relies heavily on dividend payments from our subsidiaries for funding

Our Company is a holding company incorporated in the Cayman Islands. We operate our business primarily through our subsidiaries in the PRC. Therefore, the availability of funds to enable us to pay dividends to our Shareholders and to service our indebtedness depends upon dividends received from these subsidiaries. If our subsidiaries incur indebtedness or losses, such indebtedness or losses may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends and to service our indebtedness will be restricted. PRC laws require that dividends be paid only out of after-tax profit calculated according to the PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require enterprises established in the PRC to set aside part of their after-tax profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements or debt instruments that our subsidiaries may enter into or issue in the future may also restrict the ability of our subsidiaries to make contributions to us and hence, our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and to service our indebtedness.

RISKS RELATING TO THE INDUSTRY

We operate in a highly competitive industry

We face keen competition in the furniture business. The furniture manufacturing industry is highly competitive. Our competitors are primarily other furniture manufacturers based in the PRC and other manufacturers in the Southeast Asia countries. We compete principally in terms of our proven track record, vertical integration of our manufacturing operation, our product design and development capabilities, product variety, diversified sales channels, scale of production capacity, product quality and ability to deliver quality products in compliance with stringent international standards, price and experienced management team with in-depth industry knowledge. The pricing of similar products by competitors may adversely affect the pricing of our products. Our results of operation could be materially and adversely affected should we be unable to compete successfully in one or more of the foregoing areas. Furthermore, if our competitors reduce their prices significantly, we may have to reduce our prices in order to maintain our competitiveness which could adversely affect our pricing capability, business, revenue and profitability. We may not be successful in maintaining or expanding our market share against our competitors. We may also not be able to compete with our competitors in the industry in light of the changing and competitive market environment. Our competitors may be able to respond quickly to new or changes in market trend or customer requirements and/or demands or adopt more competitive pricing policies. Existing and/or increased competition could adversely affect our market share and materially affect our business, financial condition and operating results.

Our business may be affected by outbreaks and recurrence of epidemics, natural disasters, acts of war, terrorist acts, political unrest and other events which are beyond our control

Certain countries have experienced epidemics such as the severe acute respiratory syndrome, avian influenza and natural disasters such as fire, floods, droughts, blizzards and earthquakes, which have had an adverse impact on the economies of the affected countries.

Where there is an outbreak or a recurrence of epidemics or natural disaster in any country, acts of war, terrorist acts, political unrest and other events which are beyond our control, this could result in disruption to our business or that of our customers, which could in turn adversely affect our operations and financial results.

RISK RELATING TO CONDUCTING BUSINESS IN THE PRC

PRC economic, political, social conditions as well as government policies could adversely affect our business, prospects, financial condition and financial results

We conduct the majority of our business operations in the PRC. The PRC economy differs from the economies of most developed countries in many aspects, including: (i) political structure; (ii) level of the PRC government involvement and control; (iii) growth rate and level of development; (iv) level and control of capital investment and reinvestment; (v) control of foreign exchange; and (vi) allocation of resources.

We cannot predict whether changes in the PRC's economic, political and social conditions and its laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations. In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. The PRC government has in the past implemented a number of measures intended to curtail certain segments of the economy, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on our business and financial condition.

Changes in existing laws and regulations or additional or stricter laws and regulations on environmental protection in the PRC may cause us to incur additional capital expenditures

Our operations in the PRC are subject to a wide range of PRC environmental laws and regulations, which regulate, among other things, the emission or discharge of pollutants or wastes into the soil, water or atmosphere.

Environmental laws and regulations in the PRC have generally become more stringent in recent years and could become even more stringent in the future. We may in the future be required to obtain further licences before it is permitted to carry out certain activities. Some of these environmental laws and regulations could impose significant costs, expenses, penalties and liabilities on us for violations of existing conditions attached to our licences, whether or not we caused or knew about them. Violations of such laws and regulations may result in civil penalties (such as fines and recovery of costs), remediation expenses, potential injunctions, prohibition orders and criminal penalties. Some environmental statutes impose strict liability, rendering a person liable for environmental damage regardless of negligence or fault. Compliance with, or damages or penalties for violating, current and future environmental laws and regulations could incur significant expenses, which in turn could have a material adverse effect on our business, financial condition and results of operations.

Any tightening of the requirements prescribed by environmental laws and regulations in the PRC, or changes in the manner of interpretation or enforcement of such existing laws or regulations, could adversely impact our operations by increasing our compliance costs and potential liabilities in connection with such laws and regulations, including additional capital or operating expenditures, and in the event that we are unable to pass on such costs to our customers, we may suffer financial loss. In addition, it may place additional demands on our liquidity and adversely affect our results of operations.

Fluctuations in the value of the RMB may have a material and adverse impact on your investment

During the Track Record Period, all of our operating subsidiaries are located in the PRC. Dividends, if any, we pay on our Shares will be in Hong Kong dollars. A depreciation in the RMB, on the other hand, would adversely affect the amount of any dividends we pay to our Shareholders, or require us to use more RMB funds to service the same amount of any foreign debt. Fluctuations in RMB exchange rates are affected by, among other things, changes in political and economic conditions and PRC's foreign exchange regime and policy. There are limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations between the RMB and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. As at the Latest Practicable Date, we had not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares

Currently, RMB cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the licences to carry out foreign exchange businesses. However, prior registration or approval from appropriate government authorities is required for such matters as loan provision to or borrowing from offshore entities, few prescribed types of cross border security provision, etc. The restrictions on foreign exchange transactions under capital accounts could also affect our subsidiaries in the PRC ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. Furthermore, the PRC government may in the future and at its discretion restrict access to foreign currencies for current account transactions. Under existing foreign exchange regulations, following the Listing, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. If these foreign exchange policies regarding payment of dividends in foreign currencies changes in the future or any insufficiency of foreign exchange may restrict our ability to make dividend payments to Shareholders. If we fail to obtain approval from the SAFE to convert RMB into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial position, may be materially and adversely affected.

Our business may be adversely affected by the introduction of new laws or changes to existing laws by the PRC government

Our business and operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, regulations, circulars, administrative directives and internal guidelines. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at an experimental stage and are therefore subject to policy changes. Further, court decisions in the PRC do not have any binding effect on lower courts. Accordingly, the outcome of dispute resolutions may not be as consistent or predictable as in the other more developed jurisdictions and it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of a judgement by a court of another jurisdiction.

Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws

Under the PRC laws and regulations, dividends may be paid only out of distributable profits of our PRC subsidiaries. Distributable profits are our profit for the year as determined under PRC GAAP, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits of our PRC subsidiaries to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been unprofitable. Any distributable profits of our PRC subsidiaries that are not distributed in a given year are retained and available for distribution in subsequent years. On the other hand, under the current PRC tax laws, regulations and applicable tax treaties, the payment of dividends to a non-PRC resident shareholder is subject to withholding tax of 10% unless that shareholder is incorporated in Hong Kong and meets the relevant requirements where the dividend withholding tax rate is reduced to 5% under the Arrangements between the Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) dated 21 August 2006.

Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on our business, operations and profitability

Although many laws and regulations have been promulgated and amended in the PRC since 1978, the PRC legal system is still not sufficiently comprehensive when compared to the legal systems of certain developed countries. The interpretation of the PRC laws and regulations involves significant uncertainties and different degrees of inconsistencies. Some of the laws and regulations are still at a developing stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by the PRC central or local legislative authorities and government agencies, and their implementation, interpretation and enforcement may involve uncertainty. In addition, it may also be difficult to enforce judgements and arbitration awards in the PRC. Many laws and regulations in the PRC are promulgated in broad principles and relevant legislative authorities and government authorities have gradually laid down implementation rules and have continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. Future changes in legislation or the interpretation thereof may have an adverse effect upon our business, operations or profitability.

PRC regulations on loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries

As an offshore holding company of our PRC subsidiaries, we may make loans to our relevant PRC subsidiaries which are directly invested by offshore subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. We may also determine to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be registered with the Ministry of Commerce of the PRC or its local counterpart. We expect that PRC laws and regulations may continue to limit our use of net proceeds from the Global Offering or from other financing sources. We may not be able to obtain these government registrations on a timely basis, if at all, with respect to future loans or capital contributions by us to finance our PRC subsidiaries. If we fail to receive relevant registrations, our ability to use the proceeds of the Global Offering and to capitalise our PRC operations would be negatively affected which would adversely and materially affect our liquidity and our ability to expand our business.

We are uncertain about the recoverability of our VAT recoverable, which may affect our financial positions in the future

As of 31 December 2017, 2018 and 2019 and 30 June 2020, our VAT recoverable amounted to approximately RMB100.6 million, RMB92.1 million, RMB53.7 million and RMB37.6 million, respectively. We are required to pay to our suppliers the input VAT when we purchase raw materials, services and equipment in the PRC and such input VAT would be available for deduction as input VAT against the output VAT payable by us arising from our sale. During the Track Record Period, we had recorded net VAT recoverable because (i) we mainly purchased our raw materials, services and equipment in the PRC which were subject to input VAT; and (ii) our domestic sale remained insignificant and the majority of our revenue was derived from export sale which was entitled to VAT export refund. Based on the applicable laws and regulations in the PRC, the VAT recoverable arising from our domestic sale would be deductible against the output VAT payable by us. For the VAT recoverable arising from our export sale, it would be recoverable by us as cash refund or available for deduction against the output VAT payable by us. However, as the recoverability of the VAT recoverable is subject to the relevant tax policy in the PRC and the provision of supporting documents to the satisfaction of the relevant PRC tax bureau, we cannot guarantee the recoverability or predict the timing for recovery of our VAT recoverable. If we fail to recover our VAT recoverable, our financial position could be adversely affected. Please refer to Note 22 to the Accountants' Report for details of the VAT recoverable during the Track Record Period.

RISKS RELATING TO THE GLOBAL OFFERING

Our financial performance and results of operations for the FY2020 will be affected by expenses in relation to the Listing

The estimated total expenses in connection with the Listing are approximately RMB77.0 million (equivalent to HK$91.1 million, including the underwriting commission and other Listing expenses and fees (including SFC transaction levy and Stock Exchange trading fee)). Out of the total relevant expenses (i.e. RMB77.0 million), RMB37.9 million is to be capitalised (i.e. accounted for as deduction from equity) upon Listing, while the remaining RMB39.1 million was or is expected to be charged to our consolidated statements of profit or loss and other comprehensive income. Approximately RMB0.4 million, RMB11.2 million, RMB10.1 million and RMB1.9 million of the Listing expenses in relation to services already performed had been charged to our consolidated statements of profit or loss and other comprehensive income for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. The remaining amount of approximately RMB15.5 million is expected to be charged to our consolidated statements of profit or loss and other comprehensive income after the Track Record Period. The amount of Listing expenses is a current estimate for reference only and the final amount to be recognised to our consolidated statements of profit or loss and other comprehensive income is subject to audit and the then changes in variables and assumption. Nonetheless, we expect that the non-recurring Listing expenses (which represent approximately 6.5% of our net profit for the 6MFY2020) may affect our financial performance and condition and results of operations for the FY2020.

There has been no prior public market for our Shares and an active and/or open trading market for our Shares may not develop as at or after the Listing

Prior to the Global Offering, there has not been a public market for our Shares. While we have applied for listing and dealing in our Shares on the Stock Exchange, we cannot assure you that an active, open or liquid public market for our Shares will develop as at or after the Listing or be sustained if developed. Shareholders are reminded that as one of the conditions for the Listing, there must be an open market in the Shares to develop at the time of Listing. The Stock Exchange will not grant the approval for, and the SFC may object to, the listing of the Shares if an open market in the Shares does not exist at the time of Listing. Besides, the SFC may exercise its power of suspension under section 8 of the Securities and Futures (Stock Market Listing) Rules if, at any time after the Listing, it appears to the SFC that there may not have been an open market and that a suspension in the trading of Shares is necessary or expedient in the interest of maintaining an orderly and fair market in the Shares and in the interests of the investing public or for the protection of our investors.

The Offer Price may not be necessarily indicative of the market price of our Shares after the Global Offering is complete. An investor who purchases our Shares in the Global Offering may not be able to resell such Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such Shares.

Liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders

The price at which our Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenue and cost structure such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- general market sentiment regarding, among others, the panel furniture industry in the U.S.;
- changes in applicable laws and regulations in the PRC; and
- political, economic, financial and social developments in the PRC and worldwide.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

We cannot guarantee that we will pay dividends to our Shareholders

During the Track Record Period, we did not declare nor distribute any dividends. Our Board does not have a dividend policy specifying a dividend payout ratio. Declaration of dividends is subject to the discretion of our Directors depending on our Company's results of operations, cash flows, financial condition, future prospects, general economic conditions in the overseas market and other internal or external factors that may have an impact on the business or financial performance of our Company and/or other factors that our Board may consider relevant. In addition, any declaration and payment as well as the amount of the dividends will be subject to the provisions of (i) our Articles, which provide that dividends may be declared by us at a general meeting, but no dividend shall be declared in excess of the amount recommended by the Board, and (ii) the applicable laws of the Cayman Islands, which provide that dividends may be paid out of the profits of a company or out of sums standing to the credit of its share premium account and that no dividend may be paid out of the share premium account unless, immediately following the date on which the dividend is paid, our Company is able to pay its debts as they fall due in the ordinary course of business. Under applicable PRC law, each of our subsidiaries in the PRC may only distribute after-tax profits after it has made allocations or allowances for recovery of accumulated losses and allocations to the statutory reserves. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future. We cannot guarantee if and when we will pay dividends in the future.

Sales or availability for sales of substantial amounts of our Shares in the future could materially and adversely affect the market price of our Shares

Shares held by our Controlling Shareholders, Mr. Zeng and Pure Cypress, are subject to certain lock-up periods. Please refer to the section headed "Underwriting" for further information. We cannot assure you that, after such restriction expires, our Controlling Shareholders will not dispose of any of their Shares. Sales of substantial amounts of Shares after completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise equity capital.

Shareholders' interests may be diluted as a result of additional equity fund-raising

We may need to raise additional funds in the future to finance further expansion of our business. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro rata basis to existing Shareholders, their percentage ownership in our Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

Exercise of options granted under the Share Option Scheme may result in dilution to the Shareholders

We conditionally adopted the Share Option Scheme on 2 December 2020. As at the Latest Practicable Date, no option had been granted to subscribe for any Shares under the Share Option Scheme. Following the issuance of new Shares upon exercise of any options that may be granted under the Share Option Scheme, there will be an increase in the number of issued Shares. As such, there may be a dilution or reduction of shareholding of existing Shareholders which results in a dilution or reduction of our earnings per Share and net asset value per Share. In addition, the fair value of options to be granted to eligible participants under the Share Option Scheme will be charged to our consolidated statements of profit or loss and other comprehensive income over the vesting periods of the options. Fair value of the options shall be determined on the date of granting of the options. Accordingly, our financial results and profitability may be materially and adversely affected.

The interests of our Controlling Shareholders may not always coincide with our interests and those of our other shareholders

Immediately following completion of the Global Offering and Capitalisation Issue (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), Mr. Zeng and Pure Cypress will hold directly or indirectly (as applicable) 73.125% of the issued share capital of our Company. Our Controlling Shareholders will be in a position which has significant influence over the operations and business strategy of our Company, and may have the ability to require us to effect corporate actions according to their own desires. If the interests of any of our Controlling Shareholders conflict with our and/or your interests, our Company or those other Shareholders, including you, may be adversely affected as a result.

There may be difficulties in protecting your interests because our Company is incorporated under the Companies Law in the Cayman Islands

Our corporate affairs are governed by, among other things, our Memorandum and Articles of Association and by the Companies Law and common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those established under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. Such differences may mean that our minority shareholders may have different protection than they would have under the laws of Hong Kong and other jurisdiction. For more details, please refer to the section headed "Appendix IV — Summary of the Constitution of our Company and Cayman Islands Company Law".

Certain facts and statistics in this prospectus relating to our industry may not be reliable

Certain facts and statistics in this prospectus, including industry data and forecasts, have been derived from various official government publications and independent sources which we generally believe to be reliable. However, we cannot guarantee the quality or reliability of such materials. None of us, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or our or their respective affiliates or advisers has independently verified, or made any representation as to, the accuracy of such facts, statistics, data and forecasts. Investors should not place undue reliance on such facts, statistics, data and forecasts.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains certain statements that are "forward-looking" and may use forward looking terminology such as "aim", "anticipate", "believe", "can", "could", "estimate", "expect", "going forward", "intend", "may", "might", "plan", "potential", "predict", "project", "seek", "should", "will", "would" or similar expressions, or their negatives. Those statements include, among other things, the discussion of our business strategies and the expectations of our future operations, liquidity and capital resources. Purchases and subscribers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or our or their respective affiliates or advisers that our plans and objectives will be achieved. Investors should not place undue reliance on such forward-looking information.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering. We have not authorised the disclosure of any information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and you should not reply on any such information.

In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange must have sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The core business and operations of our Company are primarily located, managed and conducted in the PRC and substantially all of our assets are based in the PRC. All of our executive Directors are ordinarily based in the PRC and we do not and, in the foreseeable future, will not have any management presence in Hong Kong.

In view of that, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the compliance with Rule 8.12 of the Listing Rules.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and our Company, we will put in place the following measures:

(a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange and ensure that our Company complies with the Listing Rules at all times. The two authorised representatives are Mr. Zeng, an executive Director and chairman of our Board, and Ms. Chan Sau Ling, the company secretary of our Company. Mr. Zeng holds valid travel documents to visit Hong Kong and Ms. Chan Sau Ling is a holder of Hong Kong permanent identity card and is ordinarily resident in Hong Kong. In addition, Ms. Zeng ML, an executive Director, is appointed as the alternate to the two authorised representatives. Each of the authorised representatives (including the alternate authorised representative) will therefore be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail (if applicable). Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;

(b) each of the authorised representatives (including the alternate authorised representative) has means to contact all members of the Board promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. In order to further enhance the communication between the Stock Exchange, our authorised representatives (including the alternate authorised representative) and our Directors, and our Company will implement the policies that:

    (i) each Director will provide his/her office phone number, mobile phone number, facsimile number and e-mail address to the authorised representatives (including the alternate authorised representative);

(ii) in the event that a Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorised representatives (including the alternate authorised representative); and

(iii) each Director will provide his/her mobile phone number, office phone number and facsimile number and email address to the Stock Exchange. We will inform the Stock Exchange promptly if there is any change of the authorised representatives or the contact details for any of them;

(c) each Director who is not ordinary resident in Hong Kong has confirmed that he/she possesses valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet the Stock Exchange upon reasonable notice;

(d) we will appoint Elstone Capital Limited as our compliance adviser upon Listing pursuant to Rule 3A.19 of the Listing Rules who will also act as an alternate channel of communication between our Company and the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. We will inform the Stock Exchange promptly of any change of its compliance adviser;

(e) meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives, the alternate authorised representative or our compliance adviser, or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any change in the authorised representatives, the alternate authorised representative and our compliance adviser; and

(f) we shall also appoint other professional advisers (including legal advisers as to Hong Kong law) after the Listing to assist our Company in advising on matters relating to the application of the Listing Rules and other applicable Hong Kong laws and regulations, and dealing with any questions which may be raised by the Stock Exchange and to ensure that there will be an efficient channel of communication with the Stock Exchange.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purposes of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. No representation is made that there has been no change or development likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to its date.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering", and the procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being the agreement of the Offer Price between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters). The International Offering is managed by the Sole Global Coordinator. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to agreement on the Offer Price between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters). If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and lapse. For more details about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting".

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 18 December 2020 and, in any event not later than Sunday, 27 December 2020. If, for any reason, the Offer Price is not agreed among our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and lapse.

RESTRICTIONS ON OFFER AND SALE OF SHARES

No action has been taken to permit a public offer of the Offer Shares other than in Hong Kong or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of Hong Kong Offer Shares to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus and he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the Listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Capitalisation Issue, the Shares to be issued pursuant to the Global Offering including any Shares which may fall to be issued upon the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme.

No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasised that none of us, the Underwriters, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of their respective associates, directors, agents, employees or advisers or any other persons or parties involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of Shares.

REGISTER OF MEMBERS AND STAMP DUTY

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our Company's branch share register of members to be maintained in Hong Kong by the Hong Kong Branch Share Registrar, Tricor Investor Services Limited. Our principal register of members will be maintained by our Company's principal share registrar, Conyers Trust Company (Cayman) Limited. Dealings in the Shares registered on the register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

OVER-ALLOTMENT OPTION AND STABILISATION

Details of the arrangement relating to the Over-allotment Option and stabilisation are set out in the section headed "Structure and Conditions of the Global Offering" of this prospectus.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 29 December 2020. The Shares will be traded in board lots of 2,000 Shares each. The stock code of the Shares will be 2127.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the English names of certain Chinese names of entities, departments, facilities, certificates, titles, laws, regulations and the like which are marked with "*" are unofficial translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentage included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

EXCHANGE RATE CONVERSION

In this prospectus, unless otherwise stated, certain amounts denominated in RMB have been translated into Hong Kong dollars or U.S. dollars at an exchange rate of RMB1.00 = HK$1.1833 (being the prevailing exchange rate on the 4 December 2020 by the People's Bank of China) or RMB6.5750 = US$1 (being the prevailing exchange rate on 25 November 2020 as quoted by H10 weekly statistical release of the Federal Reserve Board of the United States), respectively, and certain amounts denominated in U.S. dollars have been translated into Hong Kong dollars at an exchange rate of US$1.00 = HK$7.7508 (being the prevailing exchange rate on 25 November 2020 as quoted by H10 weekly statistical release of the Federal Reserve Board of the United States), for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into Hong Kong dollars or U.S. dollars at such rates or any other exchange rates on such date or any other date.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Zeng Ming (曾明)	Room 1003, Unit 2 Building B, Lian Chuang Garden No. 28 Zhangjiang North Road Zhanggong District Ganzhou Jiangxi Province PRC	St. Kitts and Nevis
Ms. Zeng Minglan (曾明蘭)	Daluo Residential District Jintang Development Zone Longnan County Ganzhou Jiangxi Province PRC	Chinese
Mr. Wu Runlu (吳潤陸)	Daluo Industrial Park Longnan County Jiangxi Province PRC	Chinese
Mr. Su Xinlin (蘇鑫林)	Room 1203 No. 7 Gaolin Xili Huli District Xiamen Fujian Province PRC	Australian

Name	Address	Nationality
Independent non-executive Directors		
Mr. Suen To Wai (孫多偉)	Flat G, 25th Floor, Hoi Chu Mansion (Tower 2) Riviera Gardens 1–7 Yi Hong Street Tsuen Wan Hong Kong	Chinese
Mr. Lau Jing Yeung William (劉正揚)	Flat F, 18th Floor, Block 6 The Pacifica 9 Sham Shing Road Lai Chi Kok Kowloon Hong Kong	Australian
Mr. Gao Jianhua (高建華)	Room 101, Unit 1, Tower 34 Block 1, Jingda Road Beidian West Village Chaoyang District Beijing PRC	Singaporean

For further information regarding our Directors, please refer to the section headed "Directors and Senior Management".

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	**China Securities (International) Corporate Finance Company Limited** *A corporation licenced under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined in the SFO)* 18th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong
Sole Global Coordinator	**China Securities (International) Corporate Finance Company Limited** *A corporation licenced under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined in the SFO)* 18th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong
Joint Bookrunners	**China Securities (International) Corporate Finance Company Limited** 18/F, Two Exchange Square 8 Connaught Place Central Hong Kong **Hung Sing Securities Limited** Unit 2505, 25/F, West Tower Shun Tak Centre 200 Connaught Road Central Hong Kong **Lead Securities (HK) Limited** Unit A, 23/F, The Wellington 198 Wellington Street Sheung Wan Hong Kong

	SBI China Capital Financial Services Limited 4/F, Henley Building No. 5 Queen's Road Central Hong Kong
Joint Lead Managers	**China Securities (International) Corporate Finance Company Limited** 18/F, Two Exchange Square 8 Connaught Place Central Hong Kong
	Hung Sing Securities Limited Unit 2505, 25/F, West Tower Shun Tak Centre 200 Connaught Road Central Hong Kong
	Lead Securities (HK) Limited Unit A, 23/F, The Wellington 198 Wellington Street Sheung Wan Hong Kong
	SBI China Capital Financial Services Limited 4/F, Henley Building No. 5 Queen's Road Central Hong Kong

Legal advisers to our Company	*As to Hong Kong law:* **Chiu & Partners** 40th Floor, Jardine House 1 Connaught Place Central Hong Kong *As to PRC law:* **AllBright Law Offices (Fuzhou)** 37th Floor, International Financial Center No.1 Wanglong 2nd Avenue Taijiang District Fuzhou 350005 PRC *As to Cayman Islands law:* **Conyers Dill & Pearman** Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands *As to U.S. law:* **Loeb & Loeb LLP** 10100 Santa Monica Boulevard Suite 2200 Los Angeles, CA 90067 U.S. *As to International Sanctions law:* **Hogan Lovells** 11th Floor, One Pacific Place 88 Queensway Hong Kong

Legal advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong law:* **CFN Lawyers** **in association with Broad & Bright** 27th Floor, Neich Tower 128 Gloucester Road Wan Chai Hong Kong *As to PRC law:* **Jingtian and Gongcheng Attorneys at Law, Shanghai Branch** 45th Floor, K.Wah Centre 1010 Huaihai Road (M) XuHui District Shanghai 200031 PRC
Auditor and Reporting accountants	**BDO Limited** 25th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Industry consultant	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** 1018, Tower B 500 Yunjin Road Shanghai, 200232 PRC
Compliance adviser	**Elstone Capital Limited** Suite 1612, 16/F, West Tower Shun Tak Centre 168–200 Connaught Road Central Hong Kong
Receiving bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong

Registered Office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and place of business in the PRC	Huisen Road Daluo Industrial Park Longnan Economic Technology Development Zone Longnan County Jiangxi Province PRC
Place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Company website	www.jxhmgroup.com *(information on the website does not form part of this prospectus)*
Company secretary	**Ms. Chan Sau Ling** *(FCS, FCIS)* Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	**Mr. Zeng Ming** Room 1003, Unit 2 Building B, Lian Chuang Garden No. 28 Zhangjiang North Road Zhanggong District Ganzhou Jianxi Province PRC **Ms. Chan Sau Ling** Level 54 Hopewell Centre 183 Queen's Road East Hong Kong

	alternate to the authorised representatives **Ms. Zeng Minglan** Daluo Residential District Jintang Development Zone Longnan County Ganzhou Jiangxi Province PRC
Authorised representatives (for the purpose of the Companies Ordinance)	**Ms. Chan Sau Ling** Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Audit committee	Mr. Suen To Wai *(Chairman)* Mr. Lau Jing Yeung William Mr. Gao Jianhua
Remuneration committee	Mr. Suen To Wai *(Chairman)* Mr. Lau Jing Yeung William Mr. Su Xinlin
Nomination committee	Mr. Lau Jing Yeung William *(Chairman)* Mr. Suen To Wai Mr. Zeng Ming
Corporate governance committee	Mr. Suen To Wai *(Chairman)* Mr. Lau Jing Yeung William Mr. Su Xinlin
Risk management committee	Mr. Zeng Ming *(Chairman)* Ms. Zeng Minglan Mr. Gao Jianhua
Hong Kong Branch Share Registrar and transfer office	**Tricor Investor Services Limited** Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Principal share registrar and transfer office	**Conyers Trust Company (Cayman) Limited** Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands

Principal bankers	**Agricultural Bank of China** Longnan Branch No. 34 Jinshui Road Longnan County Ganzhou Jiangxi Province PRC
	Industrial and Commercial Bank of China Longnan Branch No. 1, 819 Street Zhongshan Community Longnan Town Longnan County Ganzhou Jiangxi Province PRC

This section contains information which is derived from official government publications and industry sources as well as a commissioned report from F&S, the F&S Report. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of their affiliates or advisers, or any other party (excluding F&S) involved in the Global Offering and no representation is given as to its accuracy.

REPORT COMMISSIONED FROM F&S AND SOURCE OF INFORMATION

We have commissioned F&S, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on, among others, the PRC panel furniture export market and the U.S. panel furniture import market for the period from 2014 to 2024, referred to in this prospectus as the F&S Report. F&S charged us a total fee of RMB880,000 for the preparation and use of the F&S Report, which we believe reflects market rates for reports of this type. Founded in 1961, F&S has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. F&S services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence and corporate strategy.

F&S independent research consists of both primary and secondary research obtained from various sources in respect of the panel furniture market in the PRC and the U.S.. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on F&S own research database. Projected data was obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. On this basis, our Directors are satisfied that the disclosure of future projections and industry data in this section is not biased or misleading. All of the data and forecasts contained in this section are derived from the F&S Report, various official government publications and other publications.

In compiling and preparing the research, F&S assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the stable and healthy development of the panel furniture market. In addition, F&S has developed its forecast on the following bases and assumptions: (i) economy in the PRC and the U.S. is likely to maintain stable growth in the next decade and the country's social, economic and political environment is likely to remain stable in the forecast period; (ii) the PRC panel furniture export market and the U.S. panel furniture import market is expected to grow based on the macroeconomic assumptions of the economy; (iii) key industry drivers including, rising disposable income, increasing investment in the panel furniture market and supportive policies from the U.S. and PRC Government. The following parameters are considered in the market sizing and forecast model in the F&S report: (i) GDP value and GDP growth rate of the PRC and the U.S. from 2014 to 2024; (ii) revenue and export value of furniture market and panel furniture market in the PRC and the U.S., from 2014 to 2024; and (iii) export value of top five players of the panel furniture market in the PRC in 2019.

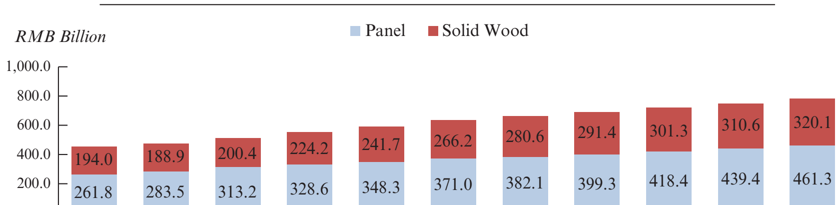
Historical market information contained in this section covers the five years ended 31 December 2019 as such information for the period thereafter was not available as at the Latest Practicable Date. Our Directors confirm that, after making reasonable investigation, there has been no material adverse change in the market information since 31 December 2019 and up to the Latest Practicable Date, which may qualify, contradict or have an impact in any material respect on the information in this section.

THE PRC PANEL FURNITURE MARKET

With the continuously growing income sustained by the stable macro-economic environment in the PRC, the total wooden furniture market in the PRC witnessed a steady growth from 2014 to 2019 and is estimated to reach RMB781.4 billion in 2024. The growth of panel furniture market would stabilise in the following years, with an annual growth rate of 3.0% between 2019 and 2020 and a CAGR of 4.8% from 2020 to 2024. Over the period from 2014 to 2019, the market size of the panel furniture market in the PRC grew steadily from approximately RMB261.8 billion to RMB371.0 billion, representing a CAGR of approximately 7.2%. In 2019, the panel furniture export segment accounted for approximately 22.0% market share of the overall panel furniture market in the PRC. The share of exported panel furniture to panel furniture market in the PRC decreased from approximately 28.9% in 2014 to 22.0% in 2019 and is expected to further decrease to approximately 18.1% in 2024.

Market size breakdown of wooden furniture market in the PRC, 2014–2024E

CAGR/Growth rate	2014–2019	2019–2020E	2020E–2024E
Total	6.9%	4.0%	4.2%
Panel furniture	7.2%	3.0%	4.8%
Solid wood furniture	6.5%	5.4%	3.3%



	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Solid Wood	194.0	188.9	200.4	224.2	241.7	266.2	280.6	291.4	301.3	310.6	320.1
Panel	261.8	283.5	313.2	328.6	348.3	371.0	382.1	399.3	418.4	439.4	461.3
Total	455.8	472.4	513.6	552.8	590.0	637.2	662.7	690.7	719.7	750.0	781.4

Source: China Furniture Association

THE DOMESTIC PANEL FURNITURE MARKET IN THE PRC

Over the period from 2014 to 2019, the market size of the domestic panel market in the PRC grew steadily from approximately RMB186.2 billion in 2014 to RMB289.3 billion in 2019, representing a CAGR of approximately 9.2%. The growth of the PRC panel furniture market was sustained by the PRC government's policy on upgrading of manufacturing industry as well as the investment in the related industry such as the forestry industry. The continuously rising urbanisation rate also triggers the increasing needs for residential housing in urban areas as a large amount of people moving from rural areas to large cities for employment opportunities, thus brings strong impulse to the panel furniture market as it is closely related to housing market. With the continuing upgrading of the furniture market and the public's growing attention to environmental protection issue and the improving living standard, the PRC domestic panel furniture market is estimated to grow stably in the future at a CAGR of approximately 5.5% from 2019 to 2024.

THE PRC PANEL FURNITURE EXPORT MARKET

Export value of furniture in the PRC increased from approximately US$93,378.0 million in 2014 to approximately US$99,499.8 million in 2019 at a CAGR of approximately 1.3%, demonstrating strong manufacturing capabilities of the overall furniture market in the PRC. PRC's furniture products were exported to over 210 countries and regions in 2019.

U.S. remained the largest export destination of furniture from the PRC from 2014 to 2019, with the export value rising from approximately US$24,175.3 million in 2014 to approximately US$27,663.9 million in 2019, followed by Japan in terms of importing value of furniture from the PRC during the same period.

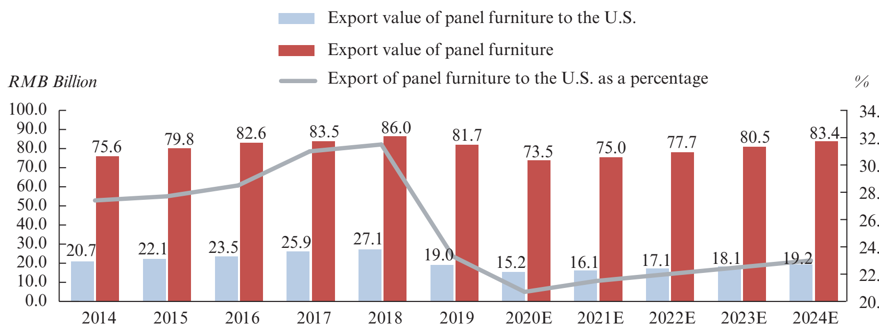
Trade value breakdown of export of wooden furniture market in the PRC, 2014–2024E

CAGR/Growth rate	2014–2019	2019–2020E	2020E–2024E
Panel furniture	1.6%	-10.0%	3.2%
Solid wood furniture	-11.9%	-9.7%	-5.2%

Source: The General Administration of Customs of China (GACC)

Trade value of export of panel furniture market in the PRC and export to the U.S. as a percentage, 2014–2024E

CAGR/Growth rate	2014–2019	2019–2020E	2020E–2024E
Export value	1.6%	-10.0%	3.2%
Export to the U.S.	-1.7%	-20.0%	6.0%



Source: Trademap

Export value of panel furniture in the PRC as measured by trade value rose from approximately RMB75.6 billion in 2014 to approximately RMB81.7 billion in 2019, at a CAGR of approximately 1.6%. In 2019, the export value of the PRC panel furniture to the U.S. accounted for approximately 23.3% of the PRC panel furniture export market. The higher growth rate of the export of panel furniture compared with that of solid wood furniture was because (i) panel furniture products enjoy price competitiveness as was of lower cost than solid wood furniture was; (ii) higher stability in product quality such as instable moisture content or other climate conditions may cause cracks and other damages to solid wood furniture; (iii) the relatively easier to disassemble and the condensed size of panel furniture reduced the difficulties and the cost to ship the panel furniture to overseas customers; and (iv) consumers were more appreciative of the less-costly but fashionably-designed and more flexible product design to adapt to different needs of the market. Thus, panel furniture was more popularised in the foreign market. Nonetheless, the export value of panel furniture from PRC to U.S. had recorded a decline in 2019 as a result of the Sino-U.S. trade war. The decline was also due to the reason that some panel furniture manufacturers had shifted part of their production lines to nearby Southeast Asian countries such as Vietnam where labour cost is relatively lower than the PRC and there is no significant trade friction between the region and foreign countries. It is expected that the export value would further decrease in 2020 mainly due to the outbreak of COVID-19 which lead to the temporary closure of businesses and disruption of logistics network in both the PRC and the U.S.. It is estimated that the PRC panel furniture export market would gradually recover and maintain a slow growth at a CAGR of approximately 3.2% from 2020 to 2024.

COMPETITIVE LANDSCAPE

The panel furniture export market in the PRC is highly fragmented and it is characterised by the intense competition with approximately 2,000 panel furniture exporters in the PRC in 2019, which accounted for approximately 32.0% of the total number of furniture manufacturers in the PRC in 2019. In 2019, the aggregated export value of the top five panel furniture exporters in the PRC accounted for only approximately 5.73% market share of PRC's total panel furniture exported. We held a market share of the panel furniture export market in the PRC of approximately 3.92% in 2019, and were the largest panel furniture exporter in terms of export value in the PRC in 2019.

Ranking in terms of export value of panel furniture market in the PRC in 2019

Ranking	**Name**	**Main business**	**Export value in 2019** *(RMB million)*	**Market share by export value** *(%)*, **2019**
1	**The Group**	**Panel furniture manufacturer and exporter**	**3,200.6**	**3.92%**
2	Company A	Panel furniture producer and exporter	720.0	0.88%
3	Company B	High-end panel furniture R&D, production and export	365.5	0.45%
4	Company C	Tables, chairs and modern style panel furniture producer and exporter	230.5	0.28%
5	Company D	Tables, chairs and modern style panel furniture producer and exporter	162.5	0.20%
		Top 5 total	4,679.1	5.73%
		Others	77,020.9	94.27%
		Total	81,700.0	100%

Source: F&S Report

According to the F&S Report, overseas retail chains tend to source panel furniture products from a limited number of suppliers with proven product quality from their previous cooperation. They normally maintain a stable and long-term business relationship with their approved suppliers as it is costly for them to switch to new suppliers given their rigorous and stringent procedures in selecting suppliers. As we have established a stable and long-term relationship with overseas retail chains and we have gained reputation in delivering furniture panel products with high quality, we have competitive advantages over the other market players in the panel furniture market in PRC.

We believe that our competitors are mainly the other furniture manufacturers based in the PRC.

According to F&S report, panel furniture, such as RTA products which tend to have shorter life cycle due to their features of easily being assembled and disposed compared with other types of panel furniture are considered as fast-moving consuming goods. Panel furniture is considered as fast-moving consumer goods since it has short product life and is often sold at relatively lower price as compared with solid wood furniture. Designing panel furniture products that follows the latest market and fashion trend and caters for dynamic demands from end users is another competitive focus for panel furniture manufacturers in the PRC. As more and more market players are undergoing transformation process from OEM to ODM, it is of great importance that market players reinforce their own R&D and designing capabilities to manufacture products that could distinguish themselves in the market in order to attract the attention of downstream retailers and end users. Unlike other panel furniture manufacturing companies who have to source raw materials from suppliers, to capture the benefit of vertical integration of our manufacturing operation and secure stable supply of our principal production materials for production of our panel furniture, we also manufacture particleboards, steel tubes, plastic tubes and plastic components principally for our own production use. Thus, we are able to lower overall operation cost as we could avoid issues such as price increase in raw materials from upstream suppliers, which allows us to operate in a more efficient way.

Competition from other Southeast Asian countries such as Vietnam

Besides, we also face increasing competition from manufacturers located in nearby regions such as Vietnam which generally have abundant supply of labour at lower cost, especially after the imposition of additional tariff by the U.S. on products imported from the PRC. Vietnam is the second largest export country of panel furniture to the U.S. in 2019, contributing to approximately 33.3% of the total trade value of imported panel furniture in the U.S. in that year. Nevertheless, it is unlikely these manufacturers would be able to replace the panel furniture manufacturers in the PRC, in particular, the leading and sizable market players in the near future. For further details, please refer to the below paragraphs headed "The U.S. panel furniture market — Impact of the Sino-U.S. trade war" in this section. The panel furniture products exported from the PRC is expected to remain competitive as compared with those from Vietnam on the following basis: (i) the panel furniture market in Vietnam is relatively fragmented with most of the local manufacturers being OEM manufacturers operating at a small scale; (ii) many panel furniture manufacturers in Vietnam are still relying on manual production with a relatively low level of automation in their production. Accordingly, many of them are relatively incompetent to produce RTA products which require precise production process and mainly focus on the production of assembled furniture; and (iii) the production capacity of the panel furniture manufacturers in Vietnam is limited by the fact that the majority of them is unable to operate for 24 hours a day.

The panel furniture market in the Vietnam is highly fragmented with approximately 10,000 panel furniture manufacturers in the market and only some of the leading panel furniture manufacturers can operate 24 hours a day. The leading market players in the panel furniture market in Vietnam are OEM manufacturers engaged by foreign furniture brand owners. Generally speaking, each of the OEM manufacturers in Vietnam would cooperate with no more than two foreign furniture brands and some of them may have entered into exclusive contract with one foreign furniture brand owner. Set out below is the relevant information of the leading OEM manufacturers in Vietnam engaged by foreign furniture brands:

Ranking	**Foreign brand engaging the OEM manufacturers in Vietnam**	**Export value of panel furniture in 2019** *(RMB million)*	**Market shares by export value in 2019** *(%)*	**24 hours production**
1	Brand A	660	2.1%	Yes
2	Brand B	620	2.0%	No
3	Brand C	570	1.8%	No
4	Brand D	530	1.7%	Yes
5	Brand E	460	1.5%	No

Source: Trademap

Note: Each of the above brands had only contracted with one OEM manufacturer in Vietnam.

We believe that we stay competitive over these Vietnam factories in terms of our staff's skills and technical knowledge and the strategic location of our production facilities which are in close proximity to our suppliers of our principal production materials. Please refer to the section headed "Business — Competitive Strengths" for further information regarding our competitive strengths.

Key entry barriers to the panel furniture manufacturing industry in the PRC

In general, entry barrier of the panel furniture manufacturing industry is relatively low, but in order to become a major player in the industry and establish business relationship with international purchasers, it is necessary to maintain a sizeable operation which may require substantial capital investments. The following sets out the main entry barriers to the panel furniture manufacturing industry in the PRC:

R&D capability: Research and development capability are among the decisive factors in terms of quality and designs of panel furniture products. With improving living standards and consumers' pursuit for fashion trends, end users' demands are becoming dynamic with regard to product function, design, quality and so forth. Thus, strong R&D capability is needed to keep up with changing market demands. However, new players in the market may not be capable enough as they are likely to lack professional talents and experience.

Channel barriers: An extensive sales network is crucial to panel furniture manufacturers as the establishment of distribution channels could help companies to obtain abundant customer resources and cooperation opportunities with large retailers, which is likely to influence companies' overall profitability. However, the setup of extensive sales channels would cost a huge amount time and energy, which is not possible to achieve in a short period of time. Moreover, good distribution channel resources could not be achieved easily for new entrants due to their shortage of market experience and brand awareness.

Capital investment: In order to become a major player in the industry and establish business relationship with international purchasers, it is necessary to maintain a sizeable operation which may require substantial capital investments. Besides, as these international purchasers need to ensure continuous supply of products with consistent product quality, the manufacturers will need to comply with annual review procedures prescribed by these international purchasers in order to become one of their approved suppliers, which is a relatively higher barrier for new entrant to the industry.

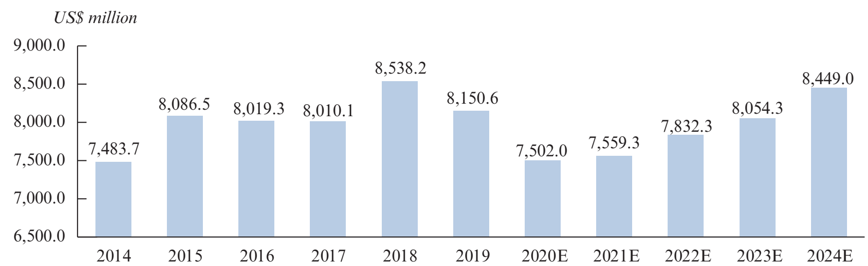
Management competencies: An effective management team that is equipped with an in-depth understanding of market dynamics and trends ensures efficient coordination of entire business flow for the company. For sizeable market players, they have already realised the importance of advanced management and operation mechanism that could help to make strategic plans to maintain companies' competitiveness. New entrants or small-to-medium sized companies who are absence of such managerial sense are likely to be driven out of the market.

Key drivers for the PRC panel furniture export market

Steady growth rate for import of panel furniture in the U.S.: Despite the negatively impact of economic recession, the panel furniture retail market in the U.S. is now growing at a steady rate due to the price competitiveness of panel furniture and the recovery of the housing market in the U.S.. Due to the globalisation and the continuing shift to areas with lower production cost, the trade value of imported panel furniture in the U.S. grew at a CAGR of approximately 1.7%, rising from approximately US$7,483.7 million in 2014 to approximately US$8,150.6 million in 2019. To prevent the spread of the COVID-19, many factories and stores were being closed down temporarily, thus the trade value of imported panel furniture in the U.S. had been experiencing a downward trend since 2020. It is expected that the imported panel furniture market of the US would decline between 2019 and 2020 and is expected to slowly recover from 2020 to 2024 at a CAGR of approximately 3.0%.

Market size of imported panel furniture market in the U.S., by trade value, 2014–2024E

	2014–2019	2019–2020E	2020E–2024E
CAGR/Growth rate	1.7%	-8.0%	3.0%



Source: Trademap

Expected growth for import of panel furniture from the PRC to various countries: It is expected that the demand for imported panel furniture from the PRC in various countries would experience continuing growth. For example, the export of PRC panel furniture to both Australia and the Netherlands (by trade value) is expected to grow at annual growth rates of 1.8% and –5.0% between 2019 and 2020 and at a CAGR of approximately 4.5% and 5.4% from 2020 to 2024. In addition, the export of panel furniture from PRC to South Africa had experienced significant growth at a CAGR of approximately 16.4% from 2014 to 2019 and it is expected that such demand will continue in the foreseeable future, which is mainly due to the fact that the current manufacturing capability in the South Africa cannot meet the local demand for panel furniture consumption. It is expected that the export of panel furniture from PRC to South Africa will further grow with an annual growth rate of 20.0% between 2019 and 2020 and at a CAGR of approximately 30.0% from 2020 to 2024.

Concentration in the market: The panel furniture market in the U.S. has become more concentrated over time and the major retailers, such as Walmart, Ashley, IKEA and Williams-Sonoma have taken up a large portion of market share. The large retailers maintain stable relationships with the suppliers of furniture products and are reluctant to change to new suppliers. It is vital for the exporters of the panel furniture to establish a stable relationship with retailers to maintain their market shares.

Fast-growing online channel: Online stores are becoming the fastest-growing channel of the panel furniture retail market and many companies are putting more efforts towards the online retail stores. Benefited from the online shopping of panel furniture, consumers can enjoy services, such as free delivery, installation and same-day pick up. The development of online channel will stimulate the demand for the panel furniture in the U.S. and thus drive the import of panel furniture products.

Supportive policies from the government: As propelled by the Belt and Road Initiative, total export value of merchandise goods in the PRC witnessed recovery between 2016 and 2019 after two consecutive years of decline. Total export to foreign countries such as Southeast Asian regions, European countries and the U.S. is embracing an uptrend. For example, Guangdong Province, being one of the major region of export of furniture in the PRC, witnessed a year-over-year growth rate of approximately 4.1% in the total export value of furniture to the 65 countries or regions along the Belt and Road. Furthermore, for Jiangxi Province, in order to further strengthen its advantages in terms of exporting furniture, the regional government has set up an international trade promotion association in December 2017, where various foreign retailers and supply chain services providers, information about furniture exhibitions and so forth would be gathered in one place to assist local panel furniture manufacturers to expand their foreign sales network.

Challenges for the PRC panel furniture export market

Distribution relationship barrier: The ability to establish and maintain a stable distribution relationship with major retailers in the U.S. is the key to long-term development of panel furniture export business. Establishing stable distribution channels, such as the traditional stores, designers and department stores, requires large amount of costs. Additionally, the resources to build a sales network need to be accumulated over a period of time, and are likely to pose barriers for new panel furniture export companies to export to the U.S. and other overseas markets.

Regulation barrier: In December 2016, the Environmental Protection Agency published a final rule to reduce exposure to formaldehyde emissions from certain wood products produced domestically or imported into the United States. It set low emission limit and established a third-party certification system for testing and oversight of the formaldehyde emissions from imported composite wood products including particleboard, MDF and hardwood plywood. Such standard require the Chinese manufacturers whose business covers the United States to adopt stringent production standards to secure the product quality and make sure that products meet related export criterion. For new comers or manufacturers of small size who lack advanced technology may fail to meet stringent standards and find it difficult to further explore overseas market.

Increasing competition from other southeast Asian countries: Due to the increasing costs of production in the PRC, it is anticipated that there would be more intense competition from the panel furniture manufactures located in nearby regions such as Vietnam. As a result of the intense competition, it is expected that export of panel furniture from the PRC to Southeast Asia countries will be in a downtrend in the future. The trade value of the export of panel furniture from PRC to Singapore and Malaysia in 2019 was approximately US$118.4 million and US$171.9 million, respectively and it is expected that the amounts of export of PRC panel furniture to Singapore and Malaysia would decline by 40% and 10% between 2019 and 2020 and then at a CAGR of approximately –10.0% and 1.7% from 2020 to 2024, respectively.

Strict environmental compliance: A series of measures with regard to environmental protection of the overall furniture manufacturing industry have been issued by the PRC government to guarantee the sustainable development of the panel furniture market. Moreover, governments of foreign countries such as European countries have also updated their related regulations on the import of furniture products in terms of the degree of harmful chemicals. Therefore, in order to comply with the strict environmental compliances of both domestic and foreign markets, panel furniture manufacturing companies have to take effective measures such as upgrading the equipment and applying advanced manufacturing technology to lower related chemical proportion, thus resulting in higher investment in operation, which poses pressure on panel furniture manufacturers.

Future opportunities of PRC panel furniture export to the U.S. market

Economic growth in the U.S.

The nominal GDP in the U.S. grew from approximately US$17,427.6 billion in 2014 to approximately US$21,434.7 billion in 2019, representing a CAGR of approximately 4.2%. The low growth rate of approximately 2.8% during 2015 and 2016 was a combined result of decline in consumer spending and slowdown of the U.S. export market. According to IMF, from 2020 to 2024, the nominal GDP in the U.S. is expected to grow and reach approximately US$24,942.4 billion in 2024, representing a CAGR of approximately 3.4%. The annual growth rate between 2019 and 2020 is estimated to be 1.8%.

Due to the stable economic environment, disposable income per capita in the U.S. grew steadily from approximately US$40,861.0 in 2014 to approximately US$50,550.0 in 2019 at a CAGR of approximately 4.3%. The economic environment in the U.S. is now in the recovery stage after the financial crisis. Thus, disposable income per capita is likely to remain stable growth in the near future, reaching approximately US$60,910.4 in 2024, which represents a CAGR of approximately 4.0% from 2020 to 2024. The annual growth rate between 2019 and 2020 is estimated to be 3.0%. Steady disposable income per capita tends to suggest people's continuous demand for improving living standard, including demand for purchasing furniture to optimise internal environment, such as selecting wooden furniture with lower formaldehyde content, or purchasing panel furniture that could lessen occupying space.

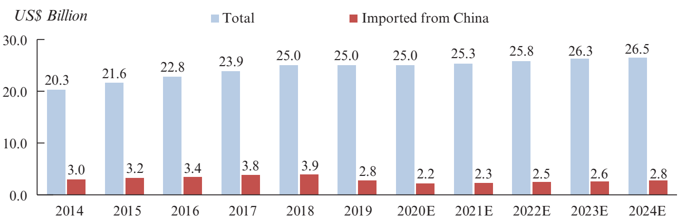
Sales of consumer goods in the U.S. witnessed stable growth over the period from 2014 to 2019 with the number rising from approximately US$5,211.5 billion in 2014 to approximately US$6,235.2 billion in 2019. The U.S. has maintained the leading position in terms of overall sales of consumer goods in the world before 2017 and was surpassed by the PRC for the first time in 2017. Recently, the young generation have shown increasing interest in the cost-effective furniture that is convenient to assemble, such as panel furniture, which suggested that there is a suggest strong market demand for different types of panel furniture, especially the RTA (ready-to-assemble) type.

While the export value of PRC wooden furniture to the U.S. in 2019 had recorded a decline as compared with in 2018 as a result of the acceleration of the Sino-U.S. trade war, it is expected the PRC panel furniture export market will recover gradually and maintain a steady growth in the foreseeable future.

U.S. panel furniture market

Market size of panel furniture in the U.S., by revenue, 2014–2024E

CAGR/Growth rate	2014–2019	2019–2020E	2020E–2024E
Total	4.3%	0.0%	1.5%
Imported from China	-1.4%	-21.4%	6.2%



Source: U.S. Bureau of Statistics

The market size of panel furniture in terms of revenue in the U.S. increased steadily from approximately US$20.3 billion in 2014 to approximately US$25.0 billion in 2019, representing a CAGR of approximately 4.3%, mainly due to the increasing demand from the younger generation for more affordable furniture and the rising trend of pursuing RTA and low maintenance furniture. In particular, despite the Sino-U.S. trade war, the market size of panel furniture in the U.S. had remained stable at approximately US$25.0 billion in 2019. It is likely that this trend would continue in 2020 to 2024, with continuous improvement in manufacturing efficiency with advancement in technology. The market size of panel furniture in the U.S. is expected to reach approximately US$26.5 billion in 2024 at a CAGR of approximately 1.5% from 2020.

PRC has been the largest import country of the imported panel furniture in the U.S due to the price competitiveness of the panel furniture from the PRC. The trade value of imported panel furniture from China is US$2.8 billion and accounted for about 34.6% of the total trade value of imported panel furniture in the U.S. in 2019. The second largest export country of panel furniture to the U.S. in 2019 was Vietnam, contributing to approximately 33.3% of the total trade value of imported panel furniture in the U.S. in 2019. Other than the PRC and Vietnam, the imported panel furniture market of the U.S. is highly fragmented, which each export country contributing to less than 5% of the total trade total trade value of imported panel furniture in the U.S. in 2019. However, the PRC export of panel furniture had been suffering from the impacts of the Sino-U.S. trade war since 2019, leading to a decrease of approximately 28.2% between 2018 and 2019. Meanwhile, it is expected that the market size of PRC panel furniture imported to the U.S. will continue to decline in 2020 mainly due to the impact of the COVID-19. Nevertheless, although there exists uncertainties regarding the Sino-U.S. trade war and the development of the COVID-19 pandemic, the trade value of imported panel furniture from PRC is expected to recover in the foreseeable future due to the facts that the U.S. has been long relying on importing panel furniture from the PRC and the PRC panel furniture remains price competitive as compared to those manufactured locally in the U.S. even with the additional U.S. tariff.

Impact of the Sino-U.S. trade war

Since 2018, the U.S. had started to impose additional tariff on products imported from the PRC thereby affecting the imported panel furniture from the PRC to the U.S. Nevertheless, the imposition of additional tariff on PRC furniture products by the U.S. mainly affected small to medium size manufacturers in the PRC which were less competitive in terms of their production capacity, product variety, product design, development and manufacture capabilities and product quality and as a result, some of such small to medium size panel furniture manufacturers have either ceased their business or shifted all or part of their production lines to nearby Southeast Asian countries in order to lower their costs.

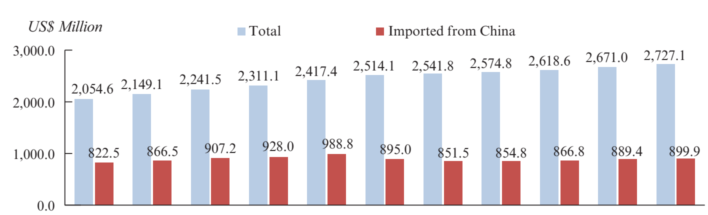
On the other hand, certain of the smaller retailers and furniture companies in the U.S. who were not able to sustain the additional tariffs, or were less demanding in terms of product quality and production capacity of their suppliers, have shifted to nearby Southeast Asian countries such as Vietnam in sourcing furniture products. In the contrary, the business performance of many sizeable overseas retailers had remain stable despite the Sino-U.S. trade war. Such sizeable overseas retailers were less affected by the Sino-U.S. trade war as they are able to shift part of the burden of the additional tariffs to their customers or trading partners. Since panel furniture is (i) fast-moving consumer goods with short product life and ever-changing style and design; and (ii) often sold at relatively lower price as compared with solid wood furniture, consumers are less sensitive to retail price adjustment. The retail price of panel furniture in the U.S. was on an upward trend in 2019 as compared to 2018, partly attributable to the imposition of the additional tariff on the products imported from the PRC. With the continuous impact of the Sino-U.S. trade war, such upward trend is expected to continue in the near future.

While the impact of the Sino-U.S. trade war had continued to affect the panel furniture export market in the PRC in 2020, as the additional tariff had been imposed for around one year, such impact had been partly absorbed by the market.

U.S. RTA furniture market

Market size of RTA furniture in the U.S., by revenue, 2014–2024E

CAGR/Growth rate	2014–2019	2019–2020E	2020E–2024E
Total	4.1%	1.1%	1.8%
Imported from China	1.7%	-4.9%	1.4%



Source: Trademap

RTA (ready-to-assemble) furniture is a major form of panel furniture and users could assemble them with basic tools following simple instructions. RTA furniture market is a part of panel furniture market.

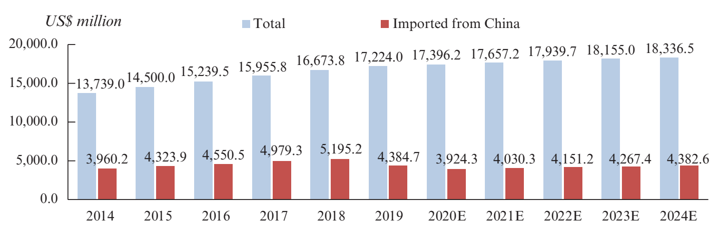
The market size of RTA furniture market in the U.S. increased from approximately US$2,054.6 million in 2014 to approximately US$2,514.1 million in 2019, representing a CAGR of approximately 4.1%. As the RTA furniture is increasing its popularity with price advantages and high customisability compared to ready-to-use (RTU) furniture, the market size of RTA furniture market in the U.S. is estimated to reach approximately US$2,727.1 million with a higher CAGR of approximately 1.8% as compared to panel furniture, from 2020 to 2024 and an annual growth rate of 1.1% between 2019 and 2020.

RTA furniture imported from China contributed to around 35.6% of total revenue in the U.S. RTA furniture market in 2019. The revenue of imported RTA furniture from the PRC is likely to decrease between 2019 and 2020 due to the impact of the COVID-19 and is expected to recover gradually since 2020 at a CAGR of approximately 1.4% from 2020 to 2024.

U.S. upholstered furniture market

Market size of upholstered furniture in the U.S., by revenue, 2014–2024E

CAGR/Growth rate	2014–2019	2019–2020E	2020E–2024E
Total	4.6%	1.0%	1.3%
Imported from China	2.1%	-10.5%	2.8%



Source: Trademap

As a labour-intensive industry, upholstered furniture manufacturing market in U.S. depends heavily on imports from other countries to fulfill the corresponding upward demand. Approximately 40% of domestic upholstery furniture consumption is satisfied by imported products overseas. The PRC accounted for approximately 65% of total U.S. upholstered furniture imports in 2019, and most of the upholstered furniture manufacturers are OEMs. For U.S. upholstered furniture market, it is anticipated that the reliance on imported upholstered furniture will continue in the future due to the economic advantages of its major import countries, such as lower labour costs and favourable prices of raw materials.

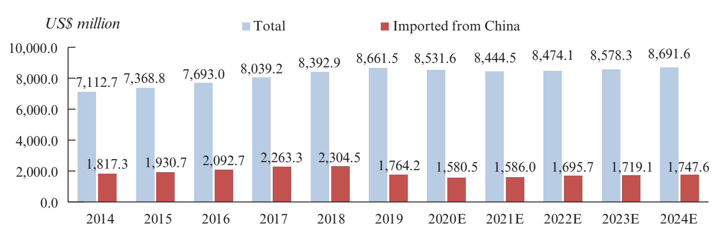
With the gradual recovery from the economic recession and corresponding revival in housing market, the market size of upholstered furniture market in terms of revenue in the U.S. grew from approximately US$13,739.0 million in 2014 to approximately US$17,224.0 million in 2019 at a CAGR of approximately 4.6%. The increasing level of automation contributed to higher production efficiency and lower cost in raw materials and labours. In addition, technological advancement has led to green production of upholstered furniture where less hazardous substance is released during the manufacturing process has also been a drive of market growth. This is also in line with consumers' growing demand for green products. The upholstered furniture market in the U.S. is expected to further grow to approximately US$18,336.5 million by 2024 at a CAGR of approximately 1.3% from 2020 to 2024.

In 2019, the revenue of imported upholstered furniture from China accounted for approximately 25.5% of total upholstered furniture market in the U.S.. It is expected that the revenue generated from the imported upholstered furniture from China will experience a downtrend between 2019 and 2020 by 10.5% as a result of the COVID-19 and recover afterwards at a CAGR of approximately 2.8% from 2020 to 2024.

U.S. outdoor furniture market

Market size of outdoor furniture in the U.S., by revenue, 2014–2024E

CAGR/Growth rate	2014–2019	2019–2020E	2020E–2024E
Total	4.0%	-1.5%	0.5%
Imported from China	-0.6%	-10.4%	2.5%



Source: Trademap

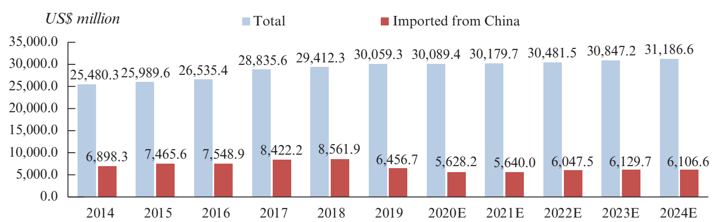
The increasing consumer spending in outdoor living space is the key driver for outdoor furniture market in the U.S.. The number of population aged between 20 and 35, who are the target consumers of the outdoor furniture, is projected to witness an increase in the foreseeable future thus contribute to the future growth of the outdoor furniture market in the U.S.. The market size of outdoor furniture market in the United States grew from approximately US$7,112.7 million in 2014 to approximately US$8,661.5 million in 2019 at a CAGR of 4.0%. Due to the impact of the COVID-19 which resulted in travel restrictions, home office policies and the temporary closure of stores and facilities in the U.S. during the first half of 2020, the market size of the U.S. outdoor furniture market is expected to decline by 1.5% between 2019 and 2020 and slowly recover at a CAGR of 0.5% from 2020 and 2024.

In 2019, the share of imported outdoor furniture from China accounted for approximately 20.4% of the total outdoor furniture market by revenue in the U.S.. Manufacturers of outdoor furniture in China are dedicated in quality control to conform more closely to the UL4041 standards, which is a safety standard for outdoor furniture products. With increasing quality of outdoor furniture from the PRC, it is expected that the PRC imported outdoor furniture market in the U.S. will gradually recover from US$1,580.5 million in 2020 to US$1,747.6 million in 2024 with a CAGR of 2.5%. However, due to the impact of COVID-19, the year 2020 would experience a decline by 10.4% from 2019.

U.S. sports and recreational equipment market

Market size of sports and recreational equipment in the U.S., by revenue, 2014–2024E

CAGR/Growth rate	2014–2019	2019–2020E	2020E–2024E
Total	3.4%	0.1%	0.9%
Imported from China	-1.3%	-12.8%	2.1%



Source: Trademap

The sports and recreational equipment market in the U.S. is driven by the increasing personal disposable income and the number of sports participants in the U.S.. The sports and recreational equipment market in the U.S. has demonstrated features of being more technology-oriented and more sophisticated in terms of usage. The use of innovative materials such as carbon fibres and nanotechnology in the manufacturing and designing of sports and recreational equipment has gaining increasing popularity. Along with higher costs of production and continued growth of outsourcing, imported sports and recreational equipment is likely to become a trend in the foreseeable future. For example, the imported value of table tennis equipment in the U.S. has already showed an increase of approximately 5% from 2017 to 2018.

The increasing demand from commercial institutions such as gyms and fitness centres as well as the rising level of consumption lead to the growth of sports and recreational equipment market in the U.S. The growth rate of the market is estimated to maintain in the future as the popularisation of spare-time table tennis and stable demand for recreations such as billiards and foosball will further drive the development of the market. The market size of sports and recreational equipment market in terms of revenue grew from approximately US$25,480.3 million in 2014 to approximately US$30,059.3 million in 2019 with a CAGR of approximately 3.4%. The market size is expected to decrease from 2019 to 2020 due to impact of the COVID-19, and is expected to recover from US$30,089.4 million in 2020 to US$31,186.6 million in 2024, representing a CAGR of approximately 0.9%.

The proportion of revenue generated from imported sports and recreation equipment from China was approximately 21.5% in 2019.

Supply of major raw materials of panel furniture in the PRC

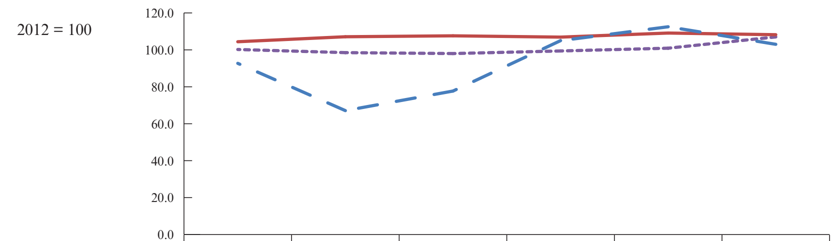
The major raw materials used in the production of panel furniture include particleboard, MDF (medium-density fibreboard) and steel strips. The supply of particleboard and medium-density fibreboard in the PRC have been sufficient. According to the China Forestry Statistical Yearbook compiled by the PRC State Forestry and Grassland Administration, the production volume of particleboard and medium-density fibreboard grew at a CAGR of approximately 7.7% and 0.5% respectively from 2013 to 2018 and reached approximately 27.3 million and 55.3 million cubic metre in 2018. Further, there were approximately 6,000 panel board suppliers in 2019 in the PRC. Many of these panel board manufacturers had been upgrading their production facilities to further improve their production efficiency in order to sustain their business in the competing market, which further enhance the supply of panel board in the PRC. On the other hand, the supply of steel stripe in the PRC has also been sufficient as the production volume of iron, being the production material of steel stripe, also maintained a continuous growth during the past few years, which increased from approximately 589.3 million tonnes in 2014 to approximately 651.5 million tonnes in 2018.

Historical price trends of major raw materials and panel furniture

Major raw material cost: Price index of particleboard increased from 104.4 in 2014 to 108.2 in 2019. Decrease in price index of MDF was attributed to the shortage of such engineered boards that were influenced by the stringent standards set by the PRC government in terms of lower level of formaldehyde of MDF and plywood. Price of MDFs varies depending on their thickness. MDFs that are thicker would generally be more expensive than those which are thinner. Price index of steel strips rose at a CAGR of approximately 2.1% from 2014 to 2019. The decrease between 2014 and 2016 was mainly due to the oversupply of steel in the PRC. Price index of steel strips recovered in 2017 as destocking has been successfully practiced.

Price index of major materials for manufacturing panel furniture in the PRC, 2014–2019

CAGR	2014–2019
Steel stripe	2.1%
Particleboard	0.7%
MDF	1.3%



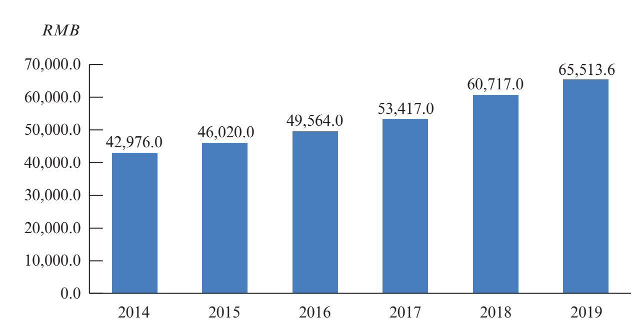
	2014	2015	2016	2017	2018	2019
Steel stripe	92.7	67.1	77.7	105.0	112.5	103.0
Particleboard	104.4	107.1	107.6	106.9	109.1	108.2
Fiberboard (MDF)	100.2	98.5	98.5	99.4	100.9	107

Source: China Iron and Steel Association, China Tiber Price Index Net

The fluctuation in the prices of major raw materials would to some extent, influence the overall operation cost of panel furniture manufacturers but would not exert obvious influence on the selling price of panel furniture products as panel furniture manufacturers have to maintain the prices stable in order to stay competitive so as to keep their market position in the long run.

Labour cost: According to National Bureau of Statistics, annual salary of employees from urban manufacturing industry in the PRC embraced stable growth from RMB51,369.0 in 2014 to RMB78,287.6 in 2019, representing a CAGR of approximately 8.8%, which was in line with the stable economic development in the PRC over the past years as well as the industrial transformation. As for Jiangxi Province, annual salary of employees from urban manufacturing industry rose from RMB42,976.0 in 2014 to RMB65,513.6 in 2019 at a CAGR of approximately 8.8%, which was inseparable from vigorous expansion of manufacturing sectors especially the furniture sector in Jiangxi Province.

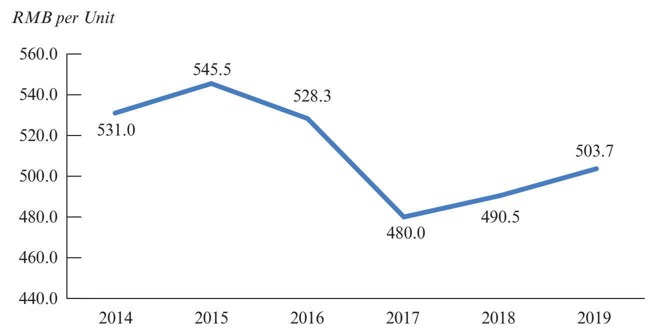
Annual salary of employees from urban manufacturing companies in Jiangxi Province, 2014–2019



Source: Statistic bureau of Jiangxi

Panel furniture price

Average export price of panel furniture, 2014–2019

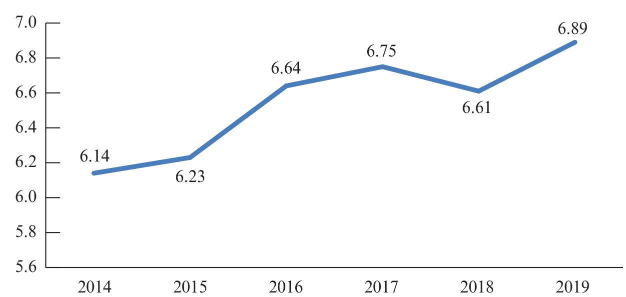


Source: National Bureau of Statistics of the PRC, Trade Map

Average export price of panel furniture in the PRC experienced fluctuations over the period from 2014 to 2019 with the price peaking at approximately RMB545.5 per unit in 2015 and then dropped to approximately RMB480.0 per unit in 2017, representing a CAGR of approximately -1.1% from 2014 to 2019. The decrease from 2015 to 2017 was mainly ascribed to the intensive competition from nearby regions such as Vietnam which enjoys lower labour cost.

Exchange rate between US$ and RMB

Exchange rate between US$ and RMB, 2014–2019



Source: National Bureau of Statistics of the PRC

The exchange rate between US$ and RMB was 6.14 in 2014 and grew to 6.75 in 2017 and then slightly decreased to 6.61 in 2018 and increased to 6.89 in 2019. Overall, the exchange rate increased at a CAGR of approximately 2.3% from 2014 to 2019, showing a depreciation trend of RMB against US$ during the past years, which has brought benefits to the export of panel furniture market in the PRC. Exporters in the PRC who used the US dollars to settle majority of their international trade over the period from 2014 to 2017 tend to gain from such currency exchange.

OVERVIEW

We are a manufacturer of furniture products in the PRC with a primary focus on the manufacture and sales of panel furniture by way of ODM. Our Group was founded by Mr. Zeng with his own financial resources when Huisen Furniture was established in November 2005. Please refer to the section headed "Directors and Senior Management" for further information on Mr. Zeng. Over the years under the helmsmanship of Mr. Zeng who is the chairman of our Board, an executive Director and a Controlling Shareholder, we have developed into the largest panel furniture exporter in the PRC in 2019 in terms of export value. Our success is primarily attributable to our years of experience in the panel furniture industry and thereby we have acquired in-depth knowledge in and understanding of the various markets need on panel furniture. Leveraging on our R&D expertise, we are able to design, develop and manufacture functional and economical panel furniture, and to offer a wide range of furniture product mix to meet changing market demands in diversified markets worldwide.

We are headquartered in Ganzhou, the PRC. Based on the delivery destinations of our products as requested by our customers, our furniture products were sold to more than 55 countries and regions worldwide during the FY2017, FY2018 and FY2019 and to more than 30 countries and regions worldwide during the 6MFY2020, with the U.S. as our major exporting country, contributing approximately 70.5% of our revenue for the 6MFY2020.

OUR CORPORATE HISTORY AND DEVELOPMENT

Year	Milestone
November 2005	Establishment of Huisen Furniture
January 2007	Establishment of Weiye Jiankang
May 2007	Commencement of production of panel furniture at our Huisen Furniture Factory
October 2009	Huisen Furniture's quality management system accredited with ISO9001:2015/GB/T 19001–2016 in respect of production of K/D furniture for the first time
March 2012	Commencement of commercial production of steel tubes at our Weiye Jiankang Factory
April 2014	Establishment of Huisen Mingda
October 2014	Establishment of Huiming Wood
February 2015	Establishment of Aigesen
February 2017	Huisen Furniture's environmental management system accredited with ISO14001:2015/GB/T 24001-2016 in respect of production of K/D furniture and related management activities

Year	Milestone
May 2017	Commencement of production of particleboards at our Aigesen Factory
July 2017	Commencement of production of upholstered furniture at our Huisen Mingda Factory and outdoor furniture at our Weiye Jiankang Factory
September 2017	Commencement of production of sports and recreational equipment at our Huisen Mingda Factory

ESTABLISHMENT OF AND MAJOR CHANGES CONCERNING OUR COMPANY AND MAJOR SUBSIDIARIES

During the Track Record Period, the principal business of our Group had been operated through our four principal operating subsidiaries, namely, Huisen Furniture, Huiming Wood, Huisen Mingda and Aigesen. The establishment and major changes concerning our Company and major subsidiaries (which commenced business from their respective dates of establishment) during the Track Record Period are set out below:

(1) Our Company

Our Company was incorporated on 16 March 2018 as part of the Reorganisation. On 16 March 2018, one subscriber Share was issued, credited as fully paid, by our Company to the initial subscriber which was transferred on the same date to Pure Cypress at nil consideration. On the same date, a total of 99,999 Shares were allotted and issued, credited as fully paid, by our Company to Pure Cypress. As a result, the entire issued share capital of our Company was wholly owned by Pure Cypress.

On 19 November 2018, Pure Cypress transferred 2,500 Shares to Vantage Link. Please refer to the paragraph headed "Reorganisation — (5) Transfer of 2.5% of the issued share capital of our Company by Pure Cypress to Vantage Link" in this section for further details. Immediately after the share transfer, the entire issued share capital of our Company was owned as to 97.5% by Pure Cypress and 2.5% by Vantage Link.

(2) Huisen Furniture

Huisen Furniture is a limited liability company established under the laws of the PRC on 1 November 2005 with an approved registered capital of US$5 million. It is principally engaged in the manufacture and sales of panel furniture. The initial shareholder upon establishment was Global Source International Co., Limited (萬商國際貿易有限公司) ("**Global Source**") which held the entire equity interest in Huisen Furniture. Global Source was then beneficially wholly owned by Mr. Zeng.

On 30 September 2008, Global Source transferred its entire equity interest in Huisen Furniture to Zeng's Industrial Co., Limited ("**Zeng's Industrial**"), an investment holding company then ultimately controlled by Mr. Zeng at nil consideration. The acquisition was completed and became effective on 1 December 2008, and Huisen Furniture became wholly owned by Zeng's Industrial.

On 20 April 2013, Zeng's Industrial transferred its entire equity interest in Huisen Furniture to HK Tengda, an investment holding company then beneficially owned by Mr. Zeng at nil consideration. The acquisition was completed and became effective on 4 June 2013, and Huisen Furniture became wholly owned by HK Tengda.

On 13 December 2016, HK Tengda transferred its entire equity interest in Huisen Furniture to Huiming Wood for a consideration of US$58 million. Such consideration was determined between the parties on an arm's length basis with reference to the registered capital of Huisen Furniture then owned by HK Tengda. The acquisition was completed and became effective on 30 December 2016, and Huisen Furniture became wholly owned by Huiming Wood.

Huisen Furniture has undergone several increases in its registered capital since its establishment and as at the Latest Practicable Date, Huisen Furniture has a registered capital of RMB363.82 million.

As at the Latest Practicable Date, Huisen Furniture was wholly owned by Huiming Wood and an indirect wholly owned subsidiary of our Company.

(3) Huiming Wood

Huiming Wood was established as a limited liability company under the laws of the PRC on 23 October 2014 with a registered capital of RMB50 million. It is principally engaged in the manufacture and sales of panel furniture. At the time of its establishment, it was wholly owned by Huisen Furniture.

As a result of the proposed cooperation between Zhongshang Tou Huisen and Huisen Furniture to expand into the PRC market for sales of panel furniture products, on 10 December 2014, Zhongshang Tou Huisen and Huisen Furniture entered into an equity transfer agreement, pursuant to which Huisen Furniture transferred its entire equity interest in Huiming Wood to Zhongshang Tou Huisen for nil consideration. The transfer was completed and became effective on 9 March 2015 and Huiming Wood became wholly owned by Zhongshang Tou Huisen. On 10 December 2014, Huisen Furniture, Mr. Zeng and Zhongshang Tou Huisen entered into another equity transfer agreement (the "**Agreement**") pursuant to which Zhongshang Tou Huisen had agreed to inject RMB100 million capital into Huiming Wood within three months from the signing of the Agreement. Zhongshang Tou Huisen had also agreed that, in the event that it failed to fulfill such capital injection obligation, it would transfer its entire equity interest in Huiming Wood to Huisen Furniture, Mr. Zeng or other third party designated by him. According to the Agreement, Zhongshang Tou Huisen had also agreed that Huisen Furniture would hold the beneficial interest in Huiming Wood until it had completed such capital injection obligation. As advised by our PRC Legal Adviser, the above arrangements were legal and valid and did not violate any applicable PRC laws and regulations.

As the proposed cooperation between Zhongshang Tou Huisen and Huisen Furniture did not materialise and Zhongshang Tou Huisen failed to fulfill its capital injection obligations under the Agreement, Huisen Furniture and Zhongshang Tou Huisen entered into an equity transfer agreement pursuant to which Zhongshang Tou Huisen transferred its entire equity interest in Huiming Wood back to Huisen Furniture for nil consideration. The transfer was completed and became effective on 13 May 2016 and Huiming Wood became wholly owned by Huisen Furniture.

As Zhongshang Tou Huisen failed to fulfill its capital injection obligations under the Agreement, Zhongshang Tou Huisen did not have the shareholder rights and control over Huiming Wood, and as such Huisen Furniture did not lose its control and shareholder rights in Huiming Wood. As a result, during the period from 1 January 2016 to 12 May 2016, we retained the control over the 100% equity interest in Huiming Wood, as we were exposed, and had rights, to variable returns from its involvement with Huiming Wood and had the ability to affect those returns through its power over Huiming Wood during the period. Huiming Wood was accounted for as our wholly owned subsidiary during the period and had been consolidated into our financial statement according to HKFRS 10.

On 6 December 2016, Huisen Furniture and Mr. Zeng entered into an equity transfer agreement, pursuant to which Huisen Furniture transferred its entire equity interest in Huiming Wood to Mr. Zeng for a consideration of RMB120 million. The consideration was determined by the parties based on the then registered capital of Huiming Wood. The consideration had been settled in full on 16 May 2017. The transfer was completed and became effective on 6 December 2016 and Huiming Wood became wholly owned by Mr. Zeng.

On 22 December 2016, Ms. Zeng ML and Mr. Zeng agreed to increase the registered capital of Huiming Wood from RMB120 million to RMB121.21 million and Ms. Zeng ML would subscribe for the newly increased registered capital of RMB1.21 million. The relevant registration procedures were completed on 27 December 2016 and Huiming Wood became owned as to approximately 99% by Mr. Zeng and 1% by Ms. Zeng ML. The consideration had been settled in full by Ms. Zeng ML on 21 January 2017.

Prior to the preparation for our Company's proposed application for the Listing, Huiming Wood had considered seeking listing ("**PRC Listing**") on a recognised stock exchange in the PRC in around second half of 2016 to first quarter of 2017. In preparation for the PRC Listing, Shanghai Huarong, a company principally engages in investment in the cultural industry, asset management, investment management and corporate management consulting, had agreed to invest in Huiming Wood and the following agreements had been entered into:

(a) the Capital Injection Agreement pursuant to which Shanghai Huarong agreed to subscribe for the registered capital of Huiming Wood of RMB8,484,847 (representing approximately 6.54% of the then enlarged registered capital of

Huiming Wood) by way of additional cash contribution of RMB350 million. The consideration had been settled in full on 26 January 2017 and the relevant registration procedures were completed on 21 February 2017;

(b) the Shareholders' Agreement regulating the joint investment and management of Huiming Wood and the rights and obligations for each of Mr. Zeng, Ms. Zeng ML and Shanghai Huarong. In particular, a put option (the "**Put Option**") had been granted by Mr. Zeng to Shanghai Huarong that, among other circumstances that may trigger the Put Option, if Huiming Wood fails to meet the guaranteed profit (being RMB224 million, RMB304 million and RMB360 million for each of the FY2016, FY2017 and FY2018 respectively) or if it fails to complete its initial public offering and listing of the shares of Huiming Wood on the Shanghai Stock Exchange, Shenzhen Stock Exchange or other onshore or offshore stock exchange approved by Shanghai Huarong before 31 December 2019 (the "**Qualified PRC Listing**"), Mr. Zeng shall purchase all or part of the 6.54% equity interest in Huiming Wood (the "**Put Option Equity Interest**") then held by Shanghai Huarong;

(c) the Market Value Guarantee Agreement pursuant to which Mr. Zeng and Ms. Zeng RH have agreed to compensate Shanghai Huarong by cash for the difference between the actual market capitalisation of Huiming Wood upon the occurrence of the Qualified PRC Listing of Huiming Wood and the agreed market capitalisation of Huiming Wood (being RMB9,200 million and RMB10,200 million in the event that Huiming Wood completes its Qualified PRC Listing before 31 December 2018 and before 31 December 2019 respectively);

(d) the Shortfall Supplement Agreement pursuant to which Mr. Zeng and Ms. Zeng RH have agreed that, if Shanghai Huarong is deemed to be a state-owned shareholder of Huiming Wood under the relevant PRC laws and regulations and it is required under the applicable PRC regulations regarding reduction of state-owned shares to transfer its equity interest in Huiming Wood to National Society Security Fund upon the Qualified PRC Listing, to compensate Shanghai Huarong for any loss in equity interest of Huiming Wood arising from such transfer; and

(e) the Guarantee Agreement, together with the agreements mentioned in sub-paragraphs (a) to (d) above (the "**Investment Agreements**"), pursuant to which Ms. Zeng RH and Huisen Furniture as guarantors agreed to provide guarantee in favour of Shanghai Huarong in respect of the performance by Mr. Zeng upon the exercise of the Put Option.

Upon completion of the increase in registered capital by Shanghai Huarong on 21 February 2017, Huiming Wood became owned as to approximately 92.53% by Mr. Zeng, 0.93% by Ms. Zeng ML and 6.54% by Shanghai Huarong, respectively. Apart from the investment of Shanghai Huarong, Huiming Wood had not commenced any other preparation for the PRC Listing and had subsequently ceased to seek the PRC Listing due to the uncertainties in the relevant policies.

On 12 December 2018, with the consent of Shanghai Huarong, Huisen Holding Investment acquired from each of Mr. Zeng and Ms. Zeng ML his/her respective entire equity interest in Huiming Wood, representing in aggregate approximately 93.46% equity interest in Huiming Wood. Please refer to the paragraph headed "Reorganisation — (6) Acquisition of approximately 93.46% equity interest in Huiming Wood" in this section for further details.

In consideration of Shanghai Huarong agreeing to grant its consent for the transfer, the parties to the Investment Agreements have entered into the following agreements:

(a) the Supplemental Shareholders' Agreement under which (1) the Put Option was exercised in full by Shanghai Huarong in accordance with the terms of the Shareholders' Agreement as amended by the Supplemental Shareholders' Agreement; (2) the consideration payable upon exercise of the Put Option has been amended (please refer to the paragraph headed "Reorganisation — (7) Exercise of Put Option by Shanghai Huarong and completion of the acquisition of the remaining equity interest in Huiming Wood" in this section); (3) the consideration payable upon exercise of the Put Option will be payable in five instalments before 30 June 2019; and (4) the payment obligation for the purchase of Put Option Equity Interest (the "**Purchase**") upon exercise of the Put Option will be jointly undertaken by the Obligors.

(b) under the Supplemental Shareholders' Agreement, Ms. Zeng RH and Mr. Zeng have given a negative pledge ("**Property Negative Pledge**") of their land use rights of real properties owned by them in favour of Shanghai Huarong, and any sales proceed thereof will be subject to joint control by Ms. Zeng RH, Mr. Zeng and Shanghai Huarong. Such negative pledge will be terminated upon payment in full by the Obligors for the Purchase.

(c) a guarantee agreement dated 5 December 2018 (the "**Corporate Guarantee Agreement**") was entered into between Shanghai Huarong and Huisen Furniture, pursuant to which Huisen Furniture has provided corporate guarantee in favour of Shanghai Huarong in respect of the performance by the Obligors for the Purchase under the Supplemental Shareholders' Agreement.

(d) a guarantee deposit pledge agreement dated 5 December 2018 (the "**Guarantee Deposit Pledge Agreement**") was entered into between Shanghai Huarong and Huisen Furniture, pursuant to which Huisen Furniture has provided a pledge over cash deposit of RMB1.5 million to secure the performance of the Obligors under the Supplemental Shareholders' Agreement.

(e) a share pledge agreement dated 5 December 2018 (the "**Share Pledge Agreement**") was entered into between Shanghai Huarong and Huisen Holding Investment, pursuant to which Huisen Holding Investment has pledged its entire 93.46% equity interest in Huiming Wood in favour of Shanghai Huarong as security ("**Pledge**").

On 5 December 2018, each of the Market Value Guarantee Agreement, the Shortfall Supplement Agreement and the Guarantee Agreement has been terminated by the Supplemental Market Value Guarantee Agreement, the Supplemental Shortfall Agreement and the Supplemental Guarantee Agreement, respectively.

On 18 February 2019, pursuant to early completion of the Purchase agreed among the parties to the Supplemental Shareholders' Agreement, consideration for the Put Option Equity Interest was fully settled and the transfer of the Put Option Equity Interest to Huisen Holding Investment from Shanghai Huarong was completed and became effective on 20 February 2019. Following such transfer, Huiming Wood became wholly owned by Huisen Holding Investment and an indirect wholly owned subsidiary of our Company. Please refer to the paragraph headed "Reorganisation — (7) Exercise of Put Option by Shanghai Huarong and completion of the acquisition of the remaining equity interest in Huiming Wood". As a result of the full settlement of the Put Option, the Property Negative Pledge, the Corporate Guarantee Agreement, the Guarantee Deposit Pledge Agreement and the Pledge were released, discharged and terminated.

Our Directors and the Sole Sponsor are of the view that the previous attempt for the PRC Listing by Huiming Wood has no adverse implication on the Listing and are not aware of any matters in relation to such attempt which should be brought to the investors' and regulators' attention and may affect the suitability of our Company to list the Shares on the Stock Exchange.

Huiming Wood has undergone several increases in its registered capital since its establishment and as at the Latest Practicable Date, Huiming Wood had a registered capital of RMB129,696,947.

(4) Huisen Mingda

Huisen Mingda is a limited liability company established under the laws of the PRC on 24 April 2014 with an approved registered capital of RMB50 million. It is principally engaged in the manufacture and sales of panel furniture, upholstered furniture, outdoor furniture and sports and recreational equipment. The initial shareholder on establishment was Huisen Furniture who held the entire equity interest in Huisen Mingda.

On 7 April 2016, it was resolved by the shareholder's resolution of Huisen Mingda to increase the registered capital of Huisen Mingda from RMB50 million to RMB200 million by way of additional cash contribution by Huisen Furniture and such capital increase became effective on 11 April 2016.

On 7 December 2016, Huisen Furniture transferred its 99% equity interest in Huisen Mingda to Huiming Wood for a consideration of RMB198 million. Such consideration was determined between the parties on an arm's length basis with reference to the registered capital of Huisen Mingda then owned by Huisen Furniture. The acquisition was completed and became effective on 14 December 2016, and Huisen Mingda became owned as to 1% by Huisen Furniture and 99% by Huiming Wood.

As at the Latest Practicable Date, Huisen Mingda was owned as to 1% by Huisen Furniture and 99% by Huiming Wood and an indirect wholly owned subsidiary of our Company.

(5) Aigesen

Aigesen is a limited liability company established under the laws of the PRC on 11 February 2015 with an approved registered capital of RMB100 million. It is principally engaged in the manufacture and sales of particleboards. At the time of its establishment, it was owned as to 5% by Mr. Zhong Rongzhong (鐘榮忠) ("**Mr. Zhong**"), an Independent Third Party, who held such equity interest on trust on behalf of Mr. Zeng, and 95% by Zhongshang Tou Huisen as a result of the proposed cooperation between Zhongshang Tou Huisen and Huisen Furniture to expand into PRC market for sales of furniture products. On 18 December 2014, Mr. Zeng and Zhongshang Tou Huisen entered into a limited company shareholders' agreement (the "**Limited Company Shareholders' Agreement**") pursuant to which Zhongshang Tou Huisen had agreed to inject RMB95 million capital into Aigesen within three months from the signing of the Limited Company Shareholders' Agreement and hold 95% equity interest in Aigesen and raise at least RMB100 million for Aigesen. According to the Limited Company Shareholders' Agreement, Zhongshang Tou Huisen had also agreed that, in the event that it failed to fulfill its aforesaid capital injection and financing obligations, it would transfer its 95% equity interest in Aigesen for nil consideration to Mr. Zeng or other third party designated by him. Zhongshang Tou Huisen did not enjoy any shareholder rights and all such rights belong to Mr. Zeng prior to the fulfillment of the capital injection obligation. As advised by our PRC Legal Adviser, the above arrangements were legal and valid and did not violate any applicable PRC laws and regulations. Since Zhongshang Tou Huisen failed to fulfill its capital injection obligations in Aigesen under the Limited Company Shareholders' Agreement, Zhongshang Tou Huisen could not enjoy any of its shareholder rights and control over Aigesen, and therefore Mr. Zeng, who held his interest through Mr. Zhong, effectively controlled 100% of the shareholder rights in Aigesen. As a result, during the period from 1 January 2016 to 12 May 2016, Aigesen had been fully controlled by Mr. Zeng. As Aigesen has been under the common control of Mr. Zeng before and after the acquisition of its entire equity interest by Huisen Furniture on 13 May 2016, Aigesen had been accounted for as a wholly owned subsidiary throughout the Track Record Period and had been consolidated into our financial statement according to HKFRS 10. On 12 May 2016, each of Mr. Zhong and Zhongshang Tou Huisen transferred their entire equity interest in Aigesen to Huisen Furniture for nil consideration as the proposed cooperation between Zhongshang Tou Huisen and Huisen Furniture did not materialise. The acquisition was completed and became effective on 13 May 2016, and Aigesen became wholly owned by Huisen Furniture.

On 25 April 2016, it was resolved by a shareholders' resolution of Aigesen to increase its registered capital from RMB100 million to RMB380 million, by additional cash contribution for an aggregate sum of RMB280 million and such capital increase became effective on 13 May 2016.

On 7 December 2016, Huisen Furniture transferred its 99% equity interest in Aigesen to Huiming Wood for a consideration of RMB376.2 million. Such consideration was determined between the parties on an arm's length basis with reference to the registered capital of Aigesen then owned by Huisen Furniture. The acquisition was completed and became effective on 9 December 2016, and Aigesen became owned as to 1% by Huisen Furniture and 99% by Huiming Wood.

As at the Latest Practicable Date, Aigesen was owned as to 1% by Huisen Furniture and 99% by Huiming Wood and an indirect wholly owned subsidiary of our Company.

(6) Weiye Jiankang

Weiye Jiankang is a limited liability company established under the laws of the PRC on 25 January 2007 with an approved registered capital of US$3.3 million. It owns the lands and buildings associated with the Weiye Jiankang Factory. As at the Latest Practicable Date, Weiye Jiankang leased the lands and buildings associated with the Weiye Jiankang Factory to (i) Huisen Furniture for the manufacture of steel tubes; and (ii) Huisen Mingda for the manufacture of upholstered furniture. The initial shareholder on establishment was Great Profit Corporation Limited (香港利安興業有限公司) ("**Great Profit**"), which was then wholly owned by Mr. Ma Kwan Hin, Harris (馬鈞顯) ("**Mr. Ma**"), an Independent Third Party, who held the entire equity interests in Weiye Jiankang.

On 6 May 2009, Mr. Zeng acquired the entire issued share capital of Great Profit from Mr. Ma for a consideration of RMB2.3 million, which was determined taking into account to the then book value of Weiye Jiankang. The acquisition was completed and became effective on 6 May 2009. On 22 February 2012, Great Profit transferred its entire equity interest in Weiye Jiankang to Huisen Furniture for a consideration of RMB22,035,845.95. Such consideration was determined between the parties on an arm's length basis with reference to the registered capital of Weiye Jiankang then owned by Great Profit. The acquisition was completed and became effective on 28 February 2012, and Weiye Jiankang became wholly owned by Huisen Furniture. In July 2017, Mr. Zeng sold the entire issued share capital in Great Profit to Ms. Ho Kwan Yee ("**Ms. Ho**"), an Independent Third Party, at nominal consideration. To the best knowledge and belief of our Directors, Ms. Ho and Mr. Ma are independent of each other and of our Group and our Directors.

On 27 February 2012, the registered capital of Weiye Jiankang was converted from US$3.3 million to RMB22,035,845.95 and such was approved on 28 February 2012. As a result of the cooperation between Zhongshang Tou Huisen and Huisen Furniture to expand into PRC market for sales of panel furniture products, on 26 February 2015, Huisen Furniture transferred its entire equity interest in Weiye Jiankang to Zhongshang Tou Huisen for nil consideration. The acquisition was completed and became effective on 27 February 2015 and Weiye Jiankang became wholly owned by Zhongshang Tou Huisen. On 26 February 2015, Huisen Furniture, Mr. Zeng and Zhongshang Tou Huisen entered into another equity transfer agreement (the "**Equity Transfer Agreement**") pursuant to which Zhongshang Tou Huisen had agreed to inject RMB50 million capital into Weiye Jiankang within four months from the signing of the Equity Transfer Agreement. Zhongshang Tou Huisen had also agreed that, in the event that it failed to fulfill such capital injection obligation, it would transfer its entire equity interest in Weiye Jiankang to Huisen Furniture, Mr. Zeng or other third party designated by him. According to the Equity Transfer Agreement, Zhongshang Tou Huisen had also agreed that Huisen Furniture would hold the beneficial interest in Weiye Jiankang until it had completed such capital injection obligation. As advised by our PRC Legal Adviser, the above arrangements were legal and valid and did not violate any applicable PRC laws and regulations. As the proposed cooperation between Zhongshang Tou Huisen and Huisen Furniture did not materialise and Zhongshang Tou Huisen failed to fulfill its capital injection obligations under the Equity Transfer Agreement, on 13 July 2015, Zhongshang Tou Huisen transferred its entire equity interest in Weiye Jiankang to Huisen Furniture for nil consideration. The acquisition was completed and became effective on 16 July 2015 and Weiye Jiankang became wholly owned by Huisen Furniture.

As Zhongshang Tou Huisen failed to fulfill its capital injection obligations under the Equity Transfer Agreement, Zhongshang Tou Huisen did not have the shareholder rights and control over Weiye Jiankang, and as such Huisen Furniture did not lose its control and shareholder rights in Weiye Jiankang. As a result, during the period from 26 February 2015 to 15 July 2015, we retained the control over the 100% equity interest in Weiye Jiankang, as we were exposed, and had rights, to variable returns from its involvement with Weiye Jiankang and had the ability to affect those returns through its power over Weiye Jiankang during the period. Weiye Jiankang was accounted for as our wholly owned subsidiary during the period and had been consolidated into our financial statement according to HKFRS 10.

On 7 December 2016, Huisen Furniture transferred its 99% equity interests in Weiye Jiankang to Huiming Wood for a consideration of RMB21,815,487.5. Such consideration was determined between the parties on an arm's length basis with reference to the registered capital of Weiye Jiankang then owned by Huisen Furniture. The acquisition was completed and became effective on 14 December 2016, and Weiye Jiankang became owned as to 1% by Huisen Furniture and 99% by Huiming Wood.

As at the Latest Practicable date, Weiye Jiankang was owned as to 1% by Huisen Furniture and 99% by Huiming Wood and an indirect wholly owned subsidiary of our Company.

Between March 2012 and December 2012, Weiye Jiankang was principally engaged in the production of steel tubes in Weiye Jiankang Factory as production materials for our furniture products. Since January 2013, considering that the steel tubes manufactured in the Weiye Jiankang Factory were used as production materials for our panel furniture products of Huisen Furniture, for better production management, Weiye Jiankang leased part of Weiye Jiankang Factory to Huisen Furniture, for the manufacture of steel tubes. Weiye Jiankang had not engaged in any production activities from January 2013 to June 2017. Between July 2017 and January 2019, apart from leasing part of the Weiye Jiankang Factory to Huisen Furniture, Weiye Jiankang was engaged in the production of outdoor furniture in Weiye Jiankang Factory.

In early 2019, we have conducted the following reallocation of the production of outdoor furniture and upholstered furniture:

1. as the production lines of outdoor furniture in Weiye Jiankang Factory had been overcrowding and there was relatively more vacant space in Huisen Mingda Factory, in January 2019, the production lines of outdoor furniture had been moved to Huisen Mingda Factory in order to better utilise our production facilities;

2. Weiye Jiankang transferred the ownership of all of its production machineries and equipment for the manufacture of outdoor furniture to Huisen Mingda in January 2019 and the manufacture of outdoor furniture had been taken up by the Huisen Mingda; and

3. as the production lines of outdoor furniture had been moved to Huisen Mingda Factory, in January 2019, the production line of upholstered furniture had in turn been moved to Weiye Jiankang Factory and Weiye Jiankang leased part of the Weiye Jiankang Factory to Huisen Mingda for the manufacture of upholstered furniture and the production of upholstered furniture continues to be conducted by Huisen Mingda. As Weiye Jiankang no longer engages in any production activities, it allowed us to reduce production, administration and finance management cost for Weiye Jiankang and increase the efficiency of management of our Group.

Subsequent to such reallocation and as at the Latest Practicable Date, Weiye Jiankang was engaged in the leasing of the lands and buildings associated with the Weiye Jiankang Factory to (i) Huisen Furniture for the manufacture of steel tubes; and (ii) Huisen Mingda for the manufacture of upholstered furniture. As at the Latest Practicable Date, Weiye Jiankang was not engaged in any manufacturing and sales activities.

(7) Huisen Home Technology

Huisen Home Technology is a limited liability company established under the laws of the PRC on 11 July 2017 with an approved registered capital of RMB100 million. Huisen Home Technology had no operation as at the Latest Practicable Date. Since its establishment and up to the Latest Practicable Date, Huisen Home Technology was 100% owned by Huisen Furniture and an indirect wholly owned subsidiary of our Company.

PREVIOUS LISTING APPLICATION

China Home & Living Holdings Limited (中國家居控股有限公司) ("**China Home**"), a company ultimately controlled by Mr. Zeng and the former holding company of two of our subsidiaries, namely Huisen Furniture and Weiye Jiankang, submitted an application for listing on the Stock Exchange in August 2012 (the "**Previous Application**"). China Home was an investment holding company and its then subsidiaries (including Huisen Furniture and Weiye Jiankang) were principally engaged in the manufacturing and sale of panel furniture. The listing application halted in 2013 due to the then weak market sentiment and the listing application lapsed in the same year.

Over the years after the lapse of the Previous Application, Mr. Zeng has adjusted the business strategies of the entities under his control and leadership (including our Group) in response to the changing market environment. The key strategies include focusing the sales of our products to overseas markets, strengthening the direct sales channel and establishing stable relationship with customers, diversifying our product types and improving our working capital management. On the premises of these key strategies, corporate restructuring has taken place with our Company becoming the holding company of our Group which comprises certain companies originally indirectly owned by China Home (namely Huisen Furniture and Weiye Jiankang) and certain operating companies newly established since 2014 (namely Huisen Mingda, Aigesen and Huisen Home Technology).

In terms of sales channels, since 2010, we had attempted to sell furniture products under our own brand targeting the consumers in the PRC through distributors, third-party online platforms and self-owned retail stores. However, the performance of the sale of furniture products under our own brand was not satisfactory. Therefore, we had ceased selling furniture products under our own brand in December 2017 and decided to focus on our OEM and ODM businesses targeting overseas markets. We had also disposed our group companies which engaged in the sales of furniture products under our own brand, namely (1) Dongguan Huisen Household Products Co., Limited* (東莞市匯森家居用品有限公司) on 23 December 2015, (2) Dongguan Huisen Home Design Service Co., Limited* (東莞市匯森家居設計服務有限公司) on 23 December 2015, (3) Huiming Ecological on 1 September 2017 and (4) Gou Si Life Creative on 15 December 2017 to Independent Third Parties and ceased selling our products through third-party online platforms or self-owned retail stores, and disposed Hengda Wood due to the low production capacity of its factory and its aged factory and machineries. To the best knowledge and belief of our Directors, each of the Independent Third Parties who acquired the disposed group companies is independent of each other and our Group, our Controlling Shareholders, Directors and senior management; and none of the disposed group companies continued to sell furniture products under our brand after the disposal. During the Track Record Period, our revenue had been generated mainly from sales to U.S. market and our furniture products were mainly sold directly to overseas retail chains or through Hong Kong and overseas furniture traders. We exported our products to 63, 56, 60 and 33 countries and regions during FY2017, FY2018, FY2019 and 6MFY2020, respectively, with U.S. as our major export market, contributing approximately 72.4%, 69.4%, 71.8% and 70.5% of our total revenue during each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. We have also ceased to sell our products through distributors and, during the Track Record Period, we did not have any distributorship arrangement for the distribution of our products, whether overseas or in the PRC. Also we have shifted our business focus from OEM business to ODM business since 2012. In our ODM business, as the design and development of our products including the relevant drawings are provided and owned by us and together with our competitive strengths, our customers cannot easily substitute us with other suppliers. As a result, it can allow us to establish a more stable and long-term relationship with our customers and increase their reliance on us which in turn increase our bargaining power in the pricing of our products. During the Track Record Period, over 65% of our revenue was generated from our ODM business. With accumulated experience and resources together with the collaboration with external design house and market research institute, our R&D capability continue to develop which supports our ODM business and further enhances our competitiveness in the PRC panel furniture export industry.

In addition to the established network with the furniture traders, we started to directly sell its furniture products to overseas retail chains since 2011 when we established direct business with Walmart, one of the Top Five Customers. It allows us to be in better position to understand appetite of the consumers so as to adapt to the market demand swiftly. Besides, we have established stable relationship with our customers. All of the Top Five Customers had a relationship of approximately five years or more with us and Walmart and Carrie had approximately eight years of relationship with us.

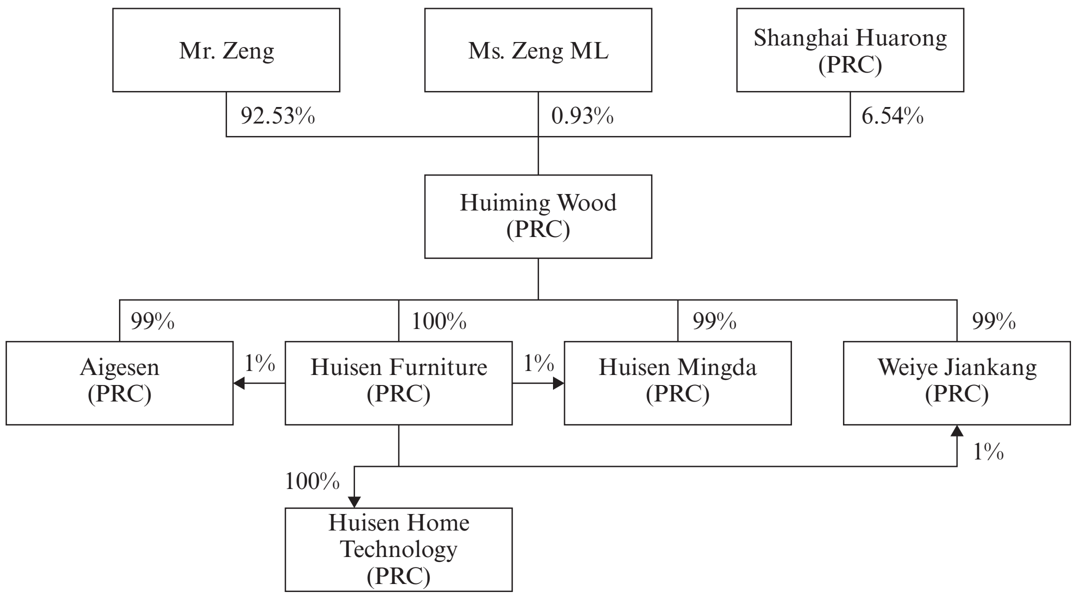
In respect of diversification of product types, leveraged from our expertise and experience in product design and development and our business relationship with major overseas retail chains and furniture traders, we have also diversified our product offering from panel furniture to upholstered furniture and other furniture such as outdoor furniture and sports and recreational equipment since 2017.

Furthermore, our operating cash flow position had been improved with an operating cash inflow of approximately RMB276.0 million, RMB621.6 million, RMB671.8 million and RMB524.7 million during FY2017, FY2018, FY2019 and 6MFY2020, respectively.

Our Directors and the Sole Sponsor are of the view that the Previous Application has no adverse implication on the Listing and they are not aware of any matters in relation to such attempt which should be brought to the investors' and regulators' attention and may affect the suitability of our Company to list the Shares on the Stock Exchange.

REORGANISATION

Immediately prior to the Reorganisation, the structure of our Group was as follows:



To rationalise our structure in preparation for the Listing, the following steps have been implemented to effect the Reorganisation:

(1) Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 16 March 2018 and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 27 March 2019. Please refer to the above paragraph headed "Establishment of and Major Changes Concerning our Company and Major Subsidiaries" in this section for information on the change in issued share capital of our Company.

(2) Incorporation of Haze Everest

Haze Everest was incorporated in the BVI as a limited liability company on 8 January 2018 with 50,000 authorised shares of US$1 each. On 22 March 2018, one share was allotted and issued, fully paid, at par by Haze Everest to our Company, as a result of which the entire issued share capital of Haze Everest was wholly owned by our Company.

(3) Incorporation of HK Huisen

HK Huisen was incorporated in Hong Kong as a private company with limited liability on 11 April 2018. On 11 April 2018, one share was allotted and issued, fully paid by HK Huisen to Haze Everest at the consideration of HK$1, as a result of which the entire issued share capital of HK Huisen was wholly owned by Haze Everest.

(4) Establishment of Huisen Holding Investment

Huisen Holding Investment was established in the PRC on 16 July 2018 as a wholly foreign owned enterprise with an approved registered capital of US$21 million. The initial shareholder on establishment was HK Huisen and it is an investment holding company. As at the Latest Practicable Date, approximately RMB0.4 million of the registered capital of Huisen Holding Investment had been paid up by HK Huisen.

(5) Transfer of 2.5% of the issued share capital of our Company by Pure Cypress to Vantage Link

On 19 November 2018, Pure Cypress transferred 2,500 Shares to Vantage Link, a company limited by shares incorporated in the BVI which is wholly owned by Mr. Su, at the consideration of HK$1. The Transferred Shares were transferred to Vantage Link at nominal consideration in recognition of, and as reward for, the contribution of Mr. Su to our business operation and development and the Listing. The consideration for the transfer was settled on 19 November 2018. As a result, the entire issued share capital of our Company was owned as to 97.5% by Pure Cypress and 2.5% by Vantage Link. Please refer to the paragraph headed "Pre-IPO Investment" in this section for further details.

(6) Acquisition of approximately 93.46% equity interest in Huiming Wood

On 12 December 2018, with the consent of Shanghai Huarong, Huisen Holding Investment acquired from each of Mr. Zeng and Ms. Zeng ML his/her respective entire equity interest in Huiming Wood for cash at an aggregate consideration of RMB121.21 million. Please refer to the paragraph headed "Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood" in this section for further details in respect of the terms and conditions for the grant of consent from Shanghai Huarong for the purpose of this part of the Reorganisation. The consideration for the acquisition was determined between the parties on an arm's length basis with reference to the registered capital of Huiming Wood then owned by each of Mr. Zeng and Ms. Zeng ML. The consideration for the acquisitions was settled on 13 December 2018. The acquisition was completed and became effective on 15 December 2018, and Huiming Wood became owned as to approximately 93.46% by Huisen Holding Investment and 6.54% by Shanghai Huarong, and an indirect non-wholly owned subsidiary of our Company.

(7) Exercise of Put Option by Shanghai Huarong and completion of the acquisition of the remaining equity interest in Huiming Wood

On 5 December 2018, the Put Option was exercised by Shanghai Huarong in accordance with the terms of the Shareholders' Agreement (as amended by the Supplemental Shareholders' Agreement). On 19 February 2019, pursuant to the completion of the Put Option, the Termination and Transfer Agreement was entered into by the parties thereto pursuant to which Huisen Holding Investment acquired the Put Option Equity Interest, representing approximately 6.54% equity interest in Huiming Wood held by Shanghai Huarong. The consideration for the acquisition, being

RMB440,725,753.42, was determined between the parties on an arm's length basis with reference to the principal amount of investment by Shanghai Huarong plus an annual investment return of 13% by applying the following formula:

$T = \sum Pn$

Whereas:

T represents the aggregate consideration payable

Pn represents the amount of consideration payable by the Obligors under each instalment payment, which is calculated as follows:

$Pn = [a_n + a_n \times 13\% \times M_n - X_n]$

a_n represents the principal amount of investment made by Shanghai Huarong and repaid by the Obligors under such instalment payment (being RMB350 million in aggregate)

M_n represents the quotient of the actual number of days from the date on which Shanghai Huarong paid its investment in Huiming Wood (i.e. 26 January 2017) up to the date on which the Obligors pay such instalment payment, as divided by 365

X_n is the dividend amount of Huiming Wood received by Shanghai Huarong in respect of the principal amount of investment and the dividend compensation paid by Mr. Zeng and Ms. Zeng ML before the settlement of such instalment payment.

The consideration for the acquisition was settled in full on 18 February 2019. The acquisition was completed and became effective on 20 February 2019 and Huiming Wood became wholly owned by Huisen Holding Investment and an indirect wholly owned subsidiary of our Company. Please refer to the paragraph headed "Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood" in this section for further details in respect of the Put Option. Each of the Shareholders' Agreement, the Supplemental Shareholders' Agreement, the Corporate Guarantee Agreement, the Guarantee Deposit Pledge Agreement and the Share Pledge Agreement has been terminated, released and discharged on the day of the settlement of the consideration for the acquisition under the Termination and Transfer Agreement.

Upon completion of the above corporate restructuring, our Company became the holding company of the members of our Group.

For alterations in the share capital of each of our Company's subsidiaries which took place within two years immediately preceding the date of this prospectus, please refer to section headed "Appendix V — Statutory and General Information — Further Information about our Company — 5. Changes in share capital of our subsidiaries" for further information.

As advised by our PRC Legal Adviser, we have obtained and completed all the requisite and approvals, registrations and/or filings formalities in all material aspects from the relevant PRC Government authorities in respect of the Reorganisation, and the Reorganisation to the extent that PRC laws are applicable, has complied with the applicable laws and regulations in the PRC. As Mr. Zeng, being our Controlling Shareholder, is not a PRC resident, he is not subject to the relevant overseas investment foreign exchange registration procedures under the Notice No. 37, in respect of his establishment and acquisition of control of offshore companies for equity financing and/or return investment of our Group.

M&A Rules

According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required. As advised by our PRC Legal Adviser, our individual Controlling Shareholder, namely Mr. Zeng, is not regarded as PRC domestic natural persons under the M&A Rules as he had been a citizen of St. Kitts and Nevis prior to the acquisition of Huiming Wood by us. Accordingly, the Reorganisation is not subject to Article 11 of the M&A Rules, and it is not necessary for us to obtain approval from MOFCOM for the Reorganisation nor from the CSRC for the Listing and trading of our Shares on the Stock Exchange.

MAJOR DISPOSAL DURING THE TRACK RECORD PERIOD

Apart from the Reorganisation set out above, we also underwent certain disposal during the Track Record Period in line with our corporate strategy. Brief details of the disposal are set out below:

(1) Disposal of Huiming Ecological

Huiming Ecological is a limited liability company established under the laws of the PRC on 2 December 2016. Immediately before the disposal of Huiming Ecological, it was wholly owned by Huiming Wood.

Prior to its disposal, Huiming Ecological was principally engaged in the manufacture of furniture products sold in the PRC market and the then director considered the PRC market was difficult to operate in and the disposal could facilitate the ease of management and resource allocation of our Group. By an agreement dated 21 August 2017, Huiming Wood disposed 20% and 80% of its equity interest in Huiming Ecological to Mr. Zeng Ruifu (曾瑞福) and Ms. Liu Haijun (劉海君), both being an Independent Third Party, respectively, for a consideration of RMB3,973,000 and RMB15,892,000, respectively. Such consideration was determined based on the then fully paid up capital of Huiming Ecological and was settled on 10 April 2018. The disposal was completed and became effective on 1 September 2017. Following such disposal, Huiming Wood no longer had any interest in Huiming Ecological.

The revenue and loss of Huiming Ecological for the period from 1 January 2017 to 21 August 2017 were nil and approximately RMB675,000 respectively. Prior to its disposal, Huiming Ecological did not have any material non-compliance with the law, rules and regulations in the PRC which, in the opinion of our Directors, is likely to have material adverse effect on its business, financial condition or results of operations.

(2) Disposal of Gou Si Creative

Gou Si Creative is a limited liability company established under the laws of the PRC on 26 August 2015. Immediately before the disposal of Gou Si Creative, it was wholly owned by Huisen Furniture.

Prior to its disposal, Gou Si Creative was principally engaged in the retail sale of furniture products in the PRC market and the then director considered the PRC market was difficult to operate in and the disposal could facilitate the ease of management and resource allocation of our Group. By an agreement dated 15 December 2017, Huisen Furniture disposed its entire equity interest in Gou Si Creative to Huiming Ecological for nil consideration and has taken up the debt of Gou Si Creative in the amount of RMB4,731,611. Such consideration was determined based on the then net liabilities of Gou Si Creative. The disposal was completed and became effective on 15 December 2017. Following such disposal, Huisen Furniture no longer had any interest in Gou Si Creative.

The revenue of Gou Si Creative for the period from 1 January 2017 to 15 December 2017 was approximately RMB156,000. The loss of Gou Si Creative for the period from 1 January 2017 to 15 December 2017 was approximately RMB6.0 million. Prior to its disposal, Gou Si Creative did not have any material non-compliance with the law, rules and regulations in the PRC which, in the opinion of our Directors, is likely to have material adverse effect on its business, financial condition or results of operations.

As advised by our PRC Legal Adviser, all the disposals mentioned above have been properly and legally completed.

PRE-IPO INVESTMENT

In recognition of and reward to Mr. Su for his contribution to our business operation and development and the Listing, on 19 November 2018, Pure Cypress has transferred 2,500 Shares ("**Transferred Shares**") at the consideration of HK$1 to Vantage Link. Please refer to the paragraph headed "Reorganisation — (5) Transfer of 2.5% of the issued share capital of our Company by Pure Cypress to Vantage Link" in this section for further details.

A summary of the Share transfer made by Pure Cypress to Vantage Link is set out below:

Date of the Share transfer	19 November 2018
Consideration paid for the Transferred Shares	HK$1
Basis of consideration	In recognition of, and as reward for, the contribution of Mr. Su to our business operation and development and the Listing
Date on which the consideration was fully and irrevocably settled	19 November 2018
Number of Shares and percentage of shareholding in our Company immediately upon Listing *(Note 1)*	56,250,000 Shares, 1.875%
Investment cost per Share	Approximately HK$0.00000002
Discount to the mid-point of the indicative Offer Price range *(Note 2)*	Approximately 99.9%
Use of proceeds	Not applicable
Special rights	None
Strategic benefits	Enlarge our shareholder base and retain our talent
Lock-up period and public float	From 13 December 2018 until the expiry of the six months after Listing, Vantage Link shall not and Mr. Su shall procure Vantage Link not to sell, transfer or otherwise dispose of or create any encumbrances over any Transferred Shares or any Shares derived from them (including the Shares to be allotted and issued to Vantage Link pursuant to the Capitalisation Issue). As Vantage Link is wholly-owned by Mr. Su and Mr. Su is an executive Director, the Shares held by Vantage Link will not be counted towards the public float of our Company after the Listing for the purpose of Rule 8.08 of the Listing Rules.

Notes:

1. Based on the number of Shares held by Vantage Link and the total number of Shares in issue upon completion of the Capitalisation Issue and the Global Offering, taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.

2. Based on the Offer Price of HK$1.715 per Share (being the mid-point of the indicative Offer Price range).

Accounting treatment

In relation to the accounting treatment of transfer of the Transferred Shares by Pure Cypress (being a Shareholder) to Vantage Link (being a company held by Mr. Su as an employee of our Group) in our financial statements, such transfer of the Transferred Shares is treated as share-based payment whereby employee render services at the consideration of equity instruments (i.e. "**equity-settled transactions**"). The cost of equity-settled transactions with employee is measured by reference to the fair value at the date at which the Transferred Shares were transferred.

We incurred equity-settled share-based payment of approximately RMB92.4 million in FY2018 which represents the cost of the Transferred Shares to Vantage Link, with an approximate fair value in such amount.

Information about Vantage Link and Mr. Su

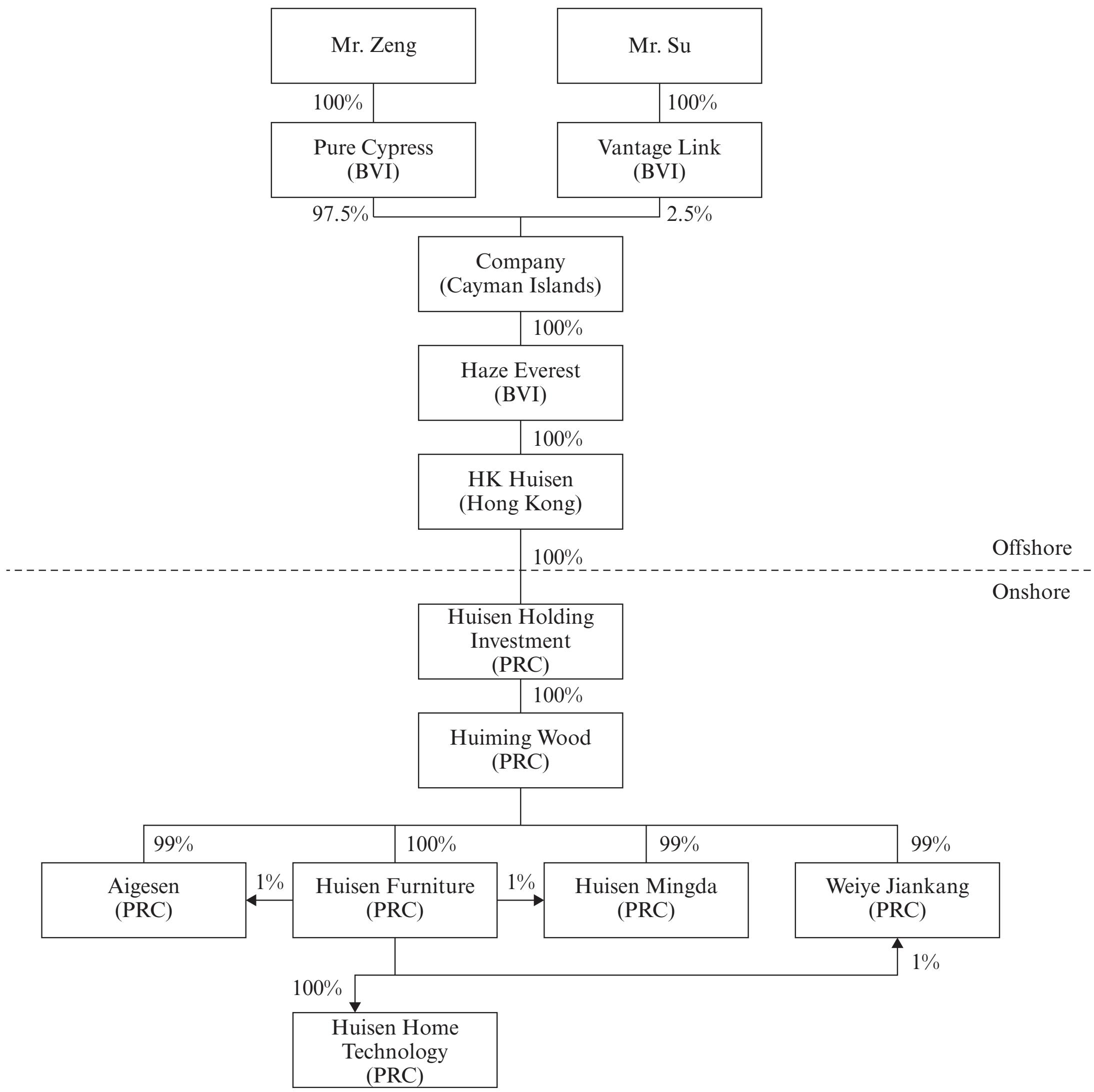
Vantage Link is an investment holding company wholly-owned by Mr. Su. Mr. Su is an executive Director and the chief financial officer of our Group. Please refer to the section headed "Directors and Senior Management" for the background information on Mr. Su.

Sole Sponsor's confirmation

As the Sole Sponsor is not aware of any terms of the pre-IPO investment which are not in compliable with the Interim Guidance on pre-IPO investments (HKEx-GL29-12) and given that the consideration for the pre-IPO investment was fully settled by or on behalf of Vantage Link more than 28 clear days before the date of submission of the initial listing application by our Company, the Sole Sponsor has confirmed that the pre-IPO investment by Vantage Link are in compliance with the Guidance Letter HKEx-GL29-12, HKEx-GL43-12 and HKEx-GL44-12 issued by the Stock Exchange.

CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately before the completion of the Global Offering and the Capitalisation Issue:



Notes:

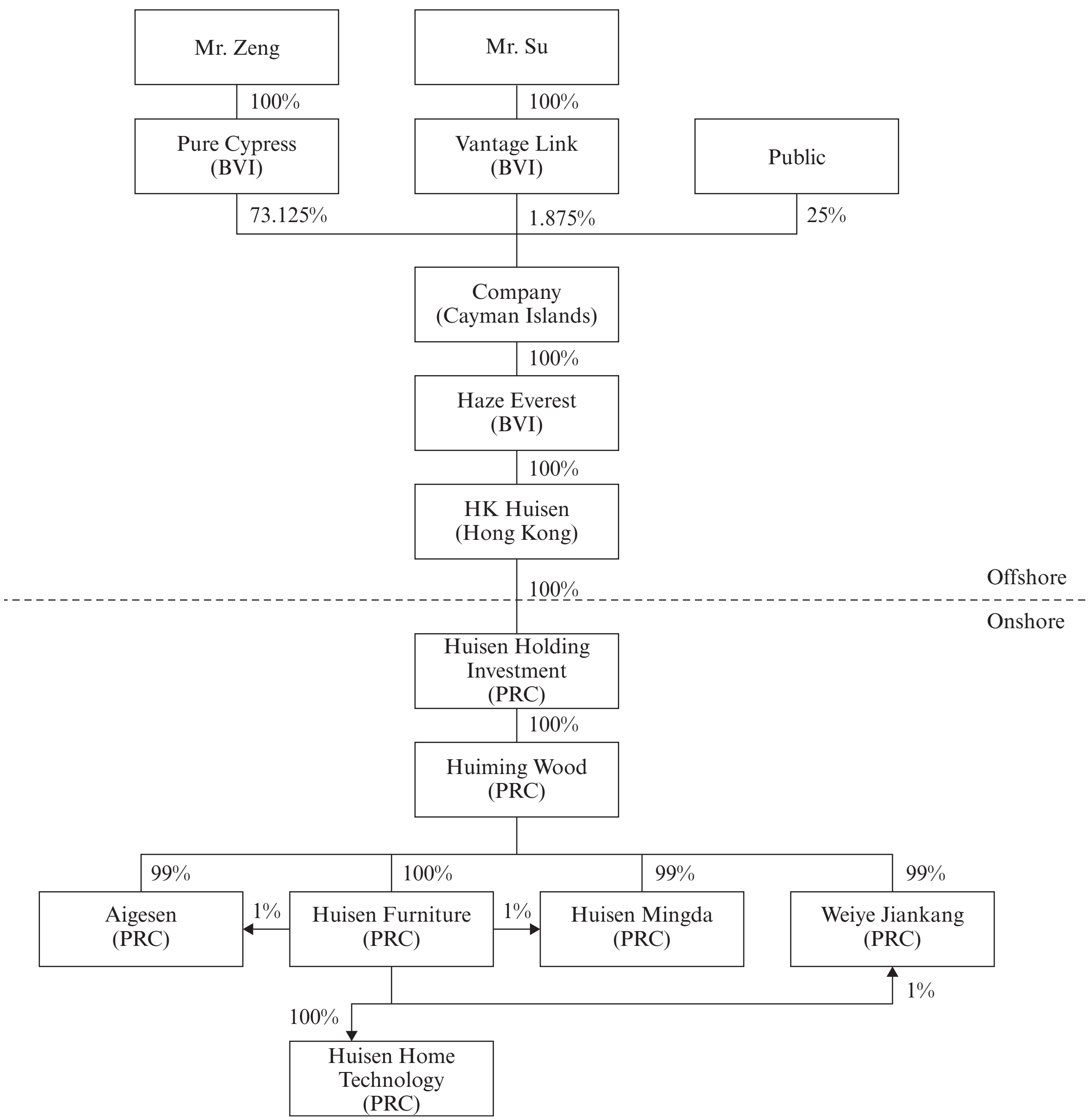
1. All percentages shown in this chart are approximate figures

2. The following table summarises the brief details of our Company and major operating subsidiary of our Company as at the Latest Practicable Date:

Name of Group companies	Date of incorporation	Place of incorporation	Principal activities
(a) Our Company	16 March 2018	Cayman Islands	Investment holding
(b) Huisen Furniture	1 November 2005	The PRC	Manufacture and sales of panel furniture
(c) Huiming Wood	23 October 2014	The PRC	Manufacture and sales of panel furniture
(d) Huisen Mingda	24 April 2014	The PRC	Manufacture and sales of panel furniture, outdoor furniture, upholstered furniture and sports and recreational equipment
(e) Aigesen	11 February 2015	The PRC	Manufacture and sales of particleboards

3. Please refer to the section headed "Appendix I — Accountants' Report — II. Notes to the Historical Financial Information — 1. Corporate Information and basis of presentation" for further information of our subsidiaries.

The following chart sets out the shareholding and corporate structure of our Group immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme):



Note: All percentages shown in this chart are approximate figures

OVERVIEW

We are a manufacturer of furniture products in the PRC with a primary focus on the manufacture and sales of panel furniture by way of ODM. During the Track Record Period, over 65% of our revenue from our furniture products was generated from our ODM business and the remaining was generated from our OEM business. All of the products we produced for sales during the Track Record Period were not under our own brands. Our vertically integrated business model allows us to combine our in-house product design and development expertise with our integrated manufacturing platform, providing full range services covering product design and development, manufacture and sales of panel furniture, and securing stable supply of our principal production materials, i.e., particleboards and steel tubes, by manufacturing them on our own. We offer comprehensive manufacturing solution to our customers, with the capabilities to design, develop and manufacture functional and economical panel furniture, upholstered furniture, and other furniture such as outdoor furniture and sports and recreational equipment. We believe that this allows us to be more responsive to changes in consumer preferences, to save our customers' costs in product developments, and to secure continuing orders from customers for our own developed products. We were the largest panel furniture exporter in terms of export value in the PRC in 2019. According to the F&S Report, we held a market share of the panel furniture export market in the PRC of approximately 3.92% in 2019. The panel furniture export market in the PRC is highly fragmented. In 2019, the aggregated export value of the top five panel furniture exporters in the PRC accounted for only approximately 5.73% market share of PRC's total panel furniture exported. During the Track Record Period, panel furniture was our major product and sales of which contributed approximately 99.9%, 95.5%, 93.7% and 92.0% of our revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020. Based on our customers' feedback their potential demand on such products, we have started commercial production of upholstered furniture, outdoor furniture and sports and recreational equipment since 2017. During the Track Record Period, our furniture products were mainly sold to the U.S. market on wholesale basis, including overseas retail chains directly or through our customers which were furniture traders. Walmart is one of our major customers of our furniture products. During the Track Record Period, Walmart contributed approximately 19.8%, 22.0%, 23.9% and 24.1% of our revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020.

Our furniture products are primarily fast-moving consumer goods which are manufactured and packaged as ready-to-assemble furniture, or RTA furniture. Our products are either designed by our R&D department or based on designs provided to us by our customers which are then manufactured, packaged and sold to customers in the form of separate components, with instructions for users to assemble the furniture themselves with simple tools.

As at the Latest Practicable Date, we have five self-owned production facilities, namely, Huisen Furniture Factory, Huisen Mingda Factory, Huiming Wood Factory, Aigesen Factory and Weiye Jiankang Factory. Our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory had an aggregate designed production capacity of 1,558,145 cubic metres of panel board for production of panel furniture for the FY2019. To capture the benefit of vertical integration of our manufacturing operation and secure stable supply of our principal production materials for production of our panel furniture, we also manufacture particleboards, steel tubes, plastic tubes and plastic components principally for our own production use. Our fully automated particleboards production facilities at our Aigesen Factory enable us to produce particleboards, being the principal production materials of our panel furnitures. We also produce steel tubes at our Weiye Jiankang Factory, and plastic tubes and plastic components at our Huisen Furniture Factory, for our production of our panel furniture. We believe such an integrated manufacturing model helps us to maximise operational efficiency, minimise production costs and maintain quality control, thus allowing us to offer our products to customers at competitive prices and at quality standards which satisfy our customers requirements thereby allowing us to enhance profitability. During each of the FY2017, FY2018, FY2019 and 6MFY2020, we achieved gross profit margins of approximately 23.6%, 23.6%, 23.8% and 22.5%, respectively.

It is our core marketing strategy to leverage on our reputation and close collaboration with prominent retailers and furniture traders to expand our customer base for our products and add key industry players to our portfolio, as well as to enhance our profitability. Based on the delivery destinations of our products as requested by our customers, our furniture products were sold to more than 55 countries and regions worldwide during the FY2017, FY2018 and FY2019 and to more than 30 countries and regions worldwide during the 6MFY2020, with the U.S. as our major exporting country, contributing approximately 70.5% of our revenue for the 6MFY2020.

Leveraging on our R&D expertise, we are able to design, develop and manufacture functional and economical panel furniture to meet the changing needs of various markets. We offer a wide range of furniture product mix for home, office and commercial uses. Our products comprises of three categories, namely (i) panel furniture (such as television cabinets, bookshelves, shelves, desks and coffee tables), upholstered furniture (such as sofas), and (ii) others, which comprises of, outdoor furniture (such as outdoor tables, outdoor stools and fire pit tables) and sports and recreational equipment (such as table tennis tables, foosball tables and pool tables). While our furniture products are primarily made of particleboards and MDFs, we also use other production materials such as plastic tubes, plastic components, steel tubes and metal components in our products depending on the design and customers' specifications.

We place strong emphasis on environmental protection and product safety. We also seek to avoid deforestation and damage to the environment by actively adopting environmentally responsible procurement and green manufacturing practices. Particleboards produced by us are mainly made of wood residue and wood waste such as sawdust, wood shavings and wooden off-cuts. As our particleboards are made of recycled materials, our products, as an alternative to solid wood products, reduce the need of exploitation of natural forest resources. In recognition of our efforts, Huisen Furniture's quality management system has been accredited with ISO9001:2015/GB/T 19001-2016 in respect of production of K/D furniture and Huisen Furniture's environmental management system has been accredited with ISO14001:2015/GB/T 24001-2016 for production of K/D furniture and related management activities.

In respect of product safety, we procure particleboards and MDFs from CARB-certified suppliers to ensure that our panel furniture sold to the U.S. complies with the relevant formaldehyde-emission requirements. Our Aigesen Factory is also certified as CARB certified manufacturer, meaning that our production facilities for our particleboards are capable of producing particleboards which are compliant with the formaldehyde-emission standards under Californian law (which are also applied as the federal formaldehyde emission standards for composite wood products in the U.S.). In accordance with the requirements by our customers, our products are also subject to third party testing by accredited third-party testing laboratories in relation to, among others, product safety, use of toxic and/or hazardous substances and flammability before delivery to our customers. This ensures that our products' compliance with the relevant local product safety requirements.

Our revenue increased from approximately RMB2,823.9 million for the FY2017 to approximately RMB3,719.1 million for the FY2019, representing a CAGR of approximately 14.8%. Our revenue decreased by approximately RMB122.3 million, or 7.0% from approximately RMB1,753.0 million for the 6MFY2019 to approximately RMB1,630.7 million for the 6MFY2020. Our profit for the year increased from approximately RMB334.8 million for the FY2017 to approximately RMB568.3 million for the FY2019, representing a CAGR of approximately 30.3%. Our profit for the period decreased by approximately RMB14.3 million, or 5.6% from approximately RMB253.5 million for the 6MFY2019 to approximately RMB239.2 million for the 6MFY2020.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success:

We are the largest panel furniture exporter in the PRC with overall competitiveness in terms of our business model, scale of production capacity, product variety, product design, development and manufacture capabilities, product quality and price

We have an operating history of over 10 years as a manufacturer of panel furniture in the PRC. According to the F&S Report, we were the largest panel furniture exporter in the PRC in 2019 in terms of export value.

Through our years of experience in the panel furniture industry, we have acquired in-depth knowledge in and understanding of the various markets need on panel furniture. We are well recognised by Walmart, having being awarded by it the "Home Management Innovation" award in 2015 and named as its "Supplier of the Year 2017". Leveraging on our R&D expertise, we are able to design, develop and manufacture functional and economical panel furniture, and to offer a wide range of furniture product mix to meet changing market demands in diversified markets worldwide. We had a designed production capacity of 1,558,145 cubic metres of panel board for production of panel furniture for the FY2019 and we operate flexible production lines that enables rapid product switches, enabling us to produce different furniture products at the same time. We believe that our design, development and manufacturing expertise and experience, and our ability in meeting the stringent quality, cost, volume and delivery schedule requirements of our customers, are the principal drivers of our success. We also believe that the size of our operations and scale of our production capacity also enable us to benefit from the economy of scale, and enhance our ability to meet customers' demands in terms of volume and to produce different furniture products at the same time. According to the F&S Report, overseas retail chains tend to source panel furniture products from a limited number of suppliers with proven product quality from their previous cooperation. They normally maintain a stable and long-term business relationship with their approved suppliers as it is costly for them to switch to new suppliers given their rigorous and stringent procedures in selecting suppliers. As we have established a stable and long-term relationship with overseas retail chains and we have gained reputation in delivering furniture panel products with high quality, we have competitive advantages over the other market players in the panel furniture market in PRC.

We believe that our long operating history, coupled with our vertically integrated business model, scale of production capacity, product variety, experience and expertise in product design and development, product quality and price, enable us to be well-equipped to stay competitive in the industry and to capture the business opportunities from the increasing demands of furniture products worldwide.

Vertically integrated business model that enhances flexibility, efficiency and quality control

Our vertically integrated business model allows us to combine our in-house product design and development expertise with our integrated manufacturing platform. We offer comprehensive manufacturing solution to our customers, with the capabilities to design, develop and manufacture furniture products. We believe that this allows us to be more responsive to changes in consumer preferences, to save our customers' costs in product developments, and to secure continuing orders from customers for our own developed products.

To capture the benefit of vertical integration of our manufacturing operation and secure stable supply of our principal production materials for production of our panel furniture, we also manufacture particleboards, steel tubes, plastic tubes and plastic components principally for our own production use. We believe that manufacturing principal production materials on our own gives us greater quality control and a reliable supply of our production materials, as well as enhancing our flexibility in meeting customers' demands in terms of volume and delivery time. We also believe that such integrated manufacturing model helps us to maximise operational efficiency and minimise production costs, thus allowing us to offer our products to customers at competitive prices and enhance our profitability. For each of the FY2017, FY2018, FY2019 and 6MFY2020, we were able to achieve gross profit margin of approximately 23.6%, 23.6%, 23.8% and 22.5%, respectively. During the Track Record Period and up to the Latest Practicable Date, we did not experience any product returns or product recall incidents.

According to the F&S Report, furniture supply companies, especially overseas retail chains, increasingly outsource the design, development and manufacturing of furniture products to third-party service providers. We believe that our product design, development and manufacturing capabilities, coupled with the vertical integration of our manufacturing operation, enable us to capitalise on the market opportunities presented by this trend.

Strong design and development expertise that enables us to develop new and innovative products to meet the changing market demand

Our R&D expertise in furniture products enables us to translate complex conceptual designs into final products conforming to the requirements of our customers. Apart from being an original equipment manufacturer, we also have an in-house design team to create new designs for our products which enables us to be an original design manufacturer. As at 30 June 2020, our R&D department comprised of 28 employees, with an average of three years of relevant experience in the furniture industry. We also have a long term collaboration with an external design house in the U.S., which has relevant experience in the U.S. furniture design industry, which keeps us abreast of the changing U.S. furniture market demand, and provide us with conceptual designs for potential new products for the U.S. market. We have also commissioned an external market research institution in the U.S. to keep us abreast of the U.S. furniture market demand.

Designs for our products are either designed by our designers or the design house in the U.S. or provided to us by our customers in the form of photographs or two-dimensional conceptual drawing. Our experienced members of the R&D department are capable of translating these complex, conceptual designs and ideas into three-dimensional computer drawings, provide technical advice to optimise product features and collaborate closely with our customers to create a sample prototype. Our designers may also design and develop furniture products based on our customers' requests as to their appearances and functionalities.

During the Track Record Period, we had developed approximately 1,040 products of different designs, over 960 of which were placed into commercial production up to the Latest Practicable Date. We believe that our expertise and technical knowledge enable us to apply cost-effective manufacturing techniques in our production processes and offer practical advice to our customers in terms of material selection and technical specifications for optimising product features and lowering production cost. Our involvement in the design and development of our own furniture products also allows us to secure continuing orders from customers for these products.

Established broad and solid relationship with major international customers for furniture products

During the Track Record Period, our furniture products were mainly sold to the U.S. market on wholesale basis, including overseas retail chains directly or through our customers which were furniture traders. During the FY2017, FY2018 and FY2019, our market coverage reached to more than 55 countries and regions and to more than 30 countries and regions worldwide during the 6MFY2020. Such countries and regions include the U.S., Canada, Singapore, Malaysia, Vietnam, the PRC and various countries in Europe and Africa.

We have developed and maintained a solid business relationship with our customers. During the Track Record Period, the Top Five Customers have been our customers from approximately five to eight years. Having passed the regular review procedures and become approved suppliers of certain overseas retail chains, we can improve our corporate image and reputation and enhance potential customers' confidence in us. We also believe that the synergy between us and the overseas retail chains and/or furniture traders in the design, development and manufacturing processes help us to keep abreast of the latest market trends and preferences on one hand, and to better understand and meet market expectations and requirements in terms of style, quality, product functions, cost and services on the other hand. We are well recognised by Walmart, having been named as its "Supplier of the Year 2017" in 2017. With our experience and reputation in the furniture industry and established distribution network, we believe that we are well positioned to capitalise on the significant growth in the global panel furniture market.

Compliance with stringent international quality standards, environmental protection and product safety requirements

We believe that one of the key factors for our success is our ability to deliver quality products in compliance with stringent international standards, thus enabling our products to attract overseas retail chains or their furniture traders and to enhance profitability. International customers place great emphasis on product quality, product safety as well as environmental standards. We maintain and perform comprehensive quality control measures throughout our integrated production model, including screening of suppliers, conducting quality checks for raw material and intermediates in order to identify defects at early stages of production and performing inspection procedures for final products, furniture components, packaging, inventory and loading of goods. Some of our export sales customers also station quality control personnel at our factories or production facilities from time to time to perform quality inspection on our products at various stages of the manufacturing process for their ordered products. In recognition of our efforts on maintaining international standards of quality control and management, Huisen Furniture's quality management system has been accredited with ISO9001:2015/GB/T 19001-2016 in respect of production of K/D furniture and Huisen Furniture's environmental management system has been accredited with ISO14001:2015/GB/T 24001-2016 for production of K/D furniture and related management activities.

In terms of environmental protection, our panel furniture are principally made of particleboards, which are mainly made of wood residue and wood waste such as sawdust, wood shavings and wooden off-cuts. As to product safety, Aigesen has been certified as CARB certified manufacturer, and we request our suppliers of particleboards and MDFs to provide to us their CARB certification, to ensure that our panel furniture sold to the U.S. complies with the relevant formaldehyde-emission requirements. Our products have been able to pass the third-party testing by accredited third-party testing laboratories in relation to, among others, product safety, use of toxic and/or hazardous substances and flammability before delivery to our customers. This ensures that our products' compliance with the relevant local product safety requirements.

We believe that our stringent control over product quality, product safety and environmental protection, together with our staff's skills and expertise, enable us to produce quality products and reduce wastage, and to maintain long term business relationship with our international customers.

During the Track Record Period and up to the Latest Practicable Date, we had only received customer complaints and feedback in respect of missing parts or accessories of our products from time to time in our ordinary course of business which do not have a material adverse effect on our business and operations, and we did not experience any material quality defects to our products, nor did we experience any product returns or recall incidents.

Experienced management team with in-depth industry knowledge

Our management team is led by our founder, executive Director and chairman of our Board, Mr. Zeng, who had more than 18 years of experience in the furniture industry. Most of our executive Directors and senior management team members have extensive experience in the furniture and/or manufacturing industries, and some of them have been part of our management team for over 13 years. Our senior management team has employed its in-depth industry knowledge as well as the expertise of our manufacturing department to produce quality furniture products and successfully expand our geographic reach and customer base during the Track Record Period. With the extensive experience of our management team in the furniture industry, we believe that we are well-positioned to respond to market changes swiftly and further diversify our customer base.

BUSINESS STRATEGIES

Our principal goal is to maintain and strengthen our position as one of the leading panel furniture export manufacturers in the PRC. To meet our goal, we intend to implement the following key business strategies:

Increase our production capacity for panel furniture and expansion of our product range in upholstered furniture

We plan to have a series of incremental capacity expansions of our manufacturing facilities to capitalise on the growing demand of panel furniture as well as to strengthen our leading position in the panel furniture industry. According to the F&S Report, despite the decrease in the trade value of imported panel furniture market in the U.S. from approximately US$8.5 billion in 2018 to approximately US$8.2 billion in 2019 primarily as a result of the Sino U.S. trade war and the anticipated further decreased to approximately US$7.5 billion in 2020 due to the outbreak of the COVID-19, the demand for panel furniture in the U.S. market is expected to gradually recover from 2021 due to the price competitiveness and quality of the imported panel furniture. It is expected that the imported panel furniture market in the U.S. would increase by approximately US$0.9 billion (equivalent to approximately RMB5.9 billion) from approximately US$7.5 billion (equivalent to approximately RMB49.3 billion) in 2020 to approximately US$8.4 billion (equivalent to approximately RMB55.2 billion) in 2024, representing a CAGR of approximately 3.0%. Our total export value to the U.S. in FY2019 was approximately RMB2.7 billion, which, when compared to the market size of the imported panel furniture market in the U.S. in 2019 represents market share of only approximately 4.7% of the U.S. imported panel furniture market in 2019.

On the other hand, the export value of PRC panel furniture to the U.S. had increased by approximately 4.6% from approximately RMB25.9 billion in 2017 to approximately RMB27.1 billion in 2018 and our revenue generated from sales of products delivered to the U.S increased by approximately 12.8% from approximately RMB2,045.7 million for FY2017 to approximately RMB2,308.1 million for FY2018, such continuous growth demonstrated and reflected our competitiveness in the U.S panel furniture export market. According to the F&S Report, despite the decrease of the export value of PRC panel furniture from approximately RMB86.0 billion in 2018 to approximately RMB81.7 billion in 2019 primarily as a result of the Sino U.S. trade war and it is anticipated that the export value of the PRC panel furniture would continue to drop by approximately 10% to approximately RMB73.5 billion in 2020 due to the outbreak of the COVID-19, the overall PRC panel furniture export market is expected to recover gradually at a CAGR of approximately 3.2% from 2020 to 2024. We believe that, (1) being the largest panel furniture exporter in the PRC with the competitive edge over our competitors as set out in the paragraphs headed "Business — Competitive Strength" in this section; and (2) with our sizeable production capacity (both panel furniture and particleboard as the principal production material), operational efficiency and product design and development capabilities, we would be able to capture a relatively higher proportion of the business opportunities from the demand of panel furniture in the U.S.

In addition, our revenue generated from the products delivered to destinations other than the U.S. (including the PRC), which contributed to over 20% of our total revenue during FY2017 to FY2019, had increased by approximately 34.8% from approximately RMB778.2 million in FY2017 to approximately RMB1,049.2 million in FY2019. We believe that, in addition to the U.S. market, we would be able to capture the business opportunities from other overseas markets and the PRC market. As confirmed by the Top Five Customers, the increase in the demand of our products during FY2017 to FY2019 was partly resulted from the shifting of orders that they used to place with other suppliers to us. We are one of the major suppliers for the majority of the Top Five Customers and a direct supplier of panel furniture of Walmart in the PRC. For further details, please refer to the paragraphs headed "Financial Information — Principal Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue".

In view of the expected market growth, we consider it is necessary for us to further expand our production capacity of panel furniture. The total average utilisation rate of the Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory (calculated based on their respective board-cutting capability) for the fourth quarter of each of FY2017, FY2018 and FY2019, being our peak season, was approximately 83.6%, 91.8% and 81.3%, respectively, which demonstrated that the utilisation rate of our production facilities for production of panel furniture had reached a saturation level.

We consider that it is not feasible for us to further expand the production capacity of our existing production facilities significantly, as there are insufficient spaces at these production facilities for accommodating additional production lines. As at March 2019, the approximate vacant gross floor area (which excluded areas for (i) storage of finished and semi-finished goods and raw materials; (ii) offices and other facilities; and (iii) emergency passageway) in each of the Huisen Furniture Factory, Huiming Wood Factory, Huisen

Mingda Factory, Weiye Jiankang Factory and Aigesen Factory was approximately 0.4%, 1.9%, 1.6%, nil and 0.9%, respectively. Hence, there is insufficient vacant space for us to expand on our production capacity significantly by merely acquiring additional machineries or production line in our existing plants, which justify the reason why it is necessary for us to build new factory to manufacture panel furniture. Furthermore, our Directors consider that the overall optimal utilisation level of our production facilities should be maintained at around 80% because with spare production capacity, we would be able to (i) ensure the quality of our products; (ii) enhance the working efficiency of our production process and labour; (iii) ensure on-time production and delivery of our products; (iv) take up urgent and/or bulk orders received from time to time; (v) attain optimal usage and maintenance of our production machineries and equipment; and (vi) take up orders for products with more complicated design.

Apart from the expansion plan for our production capacity of our panel furniture, leveraged from our expertise and experience in product design and development and our business relationship with major overseas retail chains and furniture traders, we intend to further expand our product offerings in upholstered furniture to tap into new potential markets. We have started commercial production of upholstered furniture since 2017.

Before deciding to expand into the upholstered furniture market, we have engaged an Independent Third Party consultant to prepare a report on the proposed production and sale of upholstered furniture including, among others, the costs, production method, environmental impact and the potential location for construction of factory, the prospects of the global and PRC market of upholstered furniture ("**Feasibility Report**"). Based on the recommendation of the Feasibility Report in terms of the feasibility on the construction of the new factory compartment for upholstered furniture, our customers' feedback on the potential market and discussion with the relevant government authorities regarding the availability and cost of land for industrial use in Ganzhou, we plan to expand our production capacity of our panel furniture and product range into upholstered furniture by establishing a new manufacturing factory, comprising of two factory compartments, which will focus on the manufacture of panel furniture and upholstered furniture, respectively. We plan to procure land in close proximity to our factories located in Longnan, Ganzhou, Jiangxi Province, the PRC for the development of a new factory which will be devoted to the production of a new line of panel furniture and upholstered furniture, with more advanced and automated machineries and equipment.

After this new manufacturing factory has become fully operational, it is expected that its designed production capacity will be of approximately 740,000 cubic metres of panel board for production of panel furniture per annum and approximately 720,000 sets of upholstered furniture per annum. We expect to start procuring the land used for the new manufacturing factory in first quarter of 2021 and commence the construction work in first half of 2021. While it is expected that the new manufacturing factory will commence commercial production within the first half of 2022, taking into account the time required for the construction and development of the entire new factory, the purchase and installation of production machineries, trial-run and other procedures for optimising the efficiency of the production lines, the manufacturing facilities are expected to be fully operational by second half of 2023. As at the Latest Practicable Date, we had not identify any land for acquisition for the development of the new manufacturing factory.

The following table sets out the expected annual designed production capacity for the production of panel furniture of our production facilities in FY2021, FY2022 and FY2023:

	Designed annual production capacity *(cubic metres)*	**Percentage increase as compared to FY2019**
FY2019	1,558,145	N/A
FY2021	1,675,634 *(Note)*	7.5%
FY2022	2,047,007	31.4%
FY2023	2,418,380	55.2%

Note: The estimated increased in the designed annual production capacity in FY2021 is due to the proposed upgrade of the existing machineries of our Group. The new factory will only commence commercial production starting from the first half of FY2022.

The estimated capital expenditure for the development of the new factory

It is expected that the development of our new factory will require capital expenditure in aggregate of approximately RMB1,142.2 million. The table below sets out the breakdown of the land cost, construction cost and cost of machineries and equipment for the establishment of the new factory compartment to manufacture panel furniture (the "**Panel Furniture Compartment**") and upholstered furniture (the "**Upholstered Furniture Compartment**"):

	Panel Furniture Compartment *RMB* *(Approximate)*	**Upholstered Furniture Compartment** *RMB* *(Approximate)*	**TOTAL** *RMB* *(Approximate)*
Land cost *(Note 1)*	17.0 million	12.8 million	29.8 million
Construction cost *(Note 2)*	238.6 million	218.7 million	457.3 million
Machineries and equipment *(Note 3)*	293.1 million	362.0 million	655.1 million
TOTAL	**548.7 million**	**593.5 million**	**1,142.2 million**

Notes:

(1) Assuming the land would be approximately 350 mu, the acquisition cost of the land in Longnan area of Ganzhou is estimated to be approximately RMB29.8 million which is determined with reference to the price of industrial land in Longnan area of approximately RMB85,000 per mu as announced by the Ganzhou government in February 2017 and confirmed by the relevant government authority in the PRC.

(2) The total construction cost of the factory would be approximately RMB457.3 million, which is determined with reference to the historical cost of construction of the Huisen Mingda Factory and the Feasibility Report.

(3) The estimated cost of acquiring the machineries for the Panel Furniture Compartment is based on the historical capital expenditure on our purchase of similar machineries. For the Upholstered Furniture Compartment, the estimated cost for the machineries and equipment to be acquired is determined based on the Feasibility Report. Given that the size of the existing production line of upholstered furniture is of a small scale, our Directors consider that the historical cost for establishment of existing production line is not an appropriate reference for determining the estimated capital expenditure for the establishment of the Upholstered Furniture Compartment, which is much more sizeable with more automated operations to be involved.

The total estimated capital expenditure for the development of our new factory is expected to be approximately RMB711.3 million, RMB357.6 million and RMB73.3 million for the FY2021, FY2022 and FY2023, respectively.

Our Directors expect that the estimated capital expenditures budget in relation to the above business expansion plan will be financed by our internal resources, external financing and net proceeds from the Global Offering.

The expected breakeven period, investment payback period and breakeven utilisation rate of the new factory

The following table sets out the estimated average breakeven period, investment payback period and expected breakeven utilisation rate for the establishment of the relevant new factory compartment *(Note 1)*:

	Approximate breakeven period *(Note 2)*	**Approximate investment payback period** *(Note 3)*	**Approximate breakeven utilisation rate** *(Note 4)*
Establishment of the Panel Furniture Compartment *(Note 5)*	2 years	4 years	34.4%
Establishment of the Upholstered Furniture Compartment *(Note 5)*	2 years	8 years	13%

Notes:

(1) The information in the table is calculated based on our best estimation and on a series of assumptions speculative in nature and may not reflect actual circumstances. For further details, please refer to the below paragraph headed "Major assumptions of the expected breakeven period analysis" in this section.

(2) A new factory compartment achieves breakeven when its revenue is equal to its cost and expenses for that accounting period on accrual basis. The time required to achieve breakeven depends on various factors, including but not limited to general economic and market conditions, market competition, utilisation rate and price of raw materials.

(3) The investment payback period of a new factory compartment is the time required for the accumulated operating cash flow since the commencement of business operation is able to cover the total investment amount. The time required to achieve investment payback varies depending on various factors, including (i) the capital investment such as costs of machinery and equipment; and (ii) level of profitability achieved.

(4) The breakeven utilisation rate is calculated based on the overall utilisation rate of the new factory compartment of the year when such plan achieves breakeven.

(5) Assumed that the commencement of operation of the relevant new factory compartment to take place in February 2022.

Major assumptions of the expected breakeven period analysis

For reference and illustration purpose only, set out below are the key assumptions used in calculating the breakeven period in respect of the Panel Furniture Compartment and the Upholstered Furniture Compartment.

1) The new manufacturing factory will commence commercial production in the first half of FY2022 and become fully operational by second half of FY2023.

2) The total capital expenditure required for the development of the new factory is estimated to be approximately RMB1,142.2 million. Please refer to the paragraph headed "Business Strategies — Increase our production capacity for panel furniture and expansion of our product range in upholstered furniture" in this section in respect of the assumptions used for the land costs, construction cost and cost of machineries and equipment of the Panel Furniture Compartment and Upholstered Furniture Compartment.

3) In respect of the Panel Furniture Compartment, it is expected that we will gradually allocate new orders of panel furniture to the new factory for production after it had come into operation. Starting from FY2022, we plan to allocate any additional purchase orders for panel furniture on top of the total purchase orders on panel furniture received by us during FY2020 to the Panel Furniture Compartment. Furthermore, it is assumed that (i) the annual growth in our revenue derived from the sale of panel furniture for FY2022 and FY2023 will be approximately 5.0%; (ii) the production and operating cost and expenses to be incurred by the Panel Furniture Compartment are estimated with reference to the

cost structure of our Group in FY2019; and (iii) the depreciation is calculated based on the total capital expenditure required for the Panel Furniture Compartment with reference to the useful life of our existing lands, factories and machineries. As our panel furniture business had already been well-established, we could allocate sufficient order to the new factory and therefore it is expected that the Panel Furniture Compartment would be able to achieve stable and sufficient revenue and to breakeven in the second year of operation.

4) In respect of the Upholstered Furniture Compartment, after the new production lines of upholstered furniture had come into operation, they would contribute to an additional production capacity of upholstered furniture of the Group of approximately 360,000 sets and 720,000 sets in FY2022 and FY2023, respectively. It is estimated that (i) production of approximately 72,000 and 93,600 sets of upholstered furniture would be allocated to the new production lines of upholstered furniture in FY2022 and FY2023, respectively, with an average selling price of approximately RMB2,000 per set; (ii) the depreciation is calculated based on the total capital expenditure required for the Upholstered Furniture Compartment with reference to the useful life of our existing lands, factories and machineries; and (iii) the production and operating costs and expenses to be incurred by the Upholstered Furniture Compartment are estimated with reference to the cost structure in relation to the production of upholstered furniture and our Group in FY2019 respectively .

In respect of the Upholstered Furniture Compartment, we consider that the existing production lines of the upholstered furniture is of a small scale of operation and production efficiency could be further enhanced. Based on the feedbacks from some of our customers, our Directors consider that, with the additions of automated machineries and the expansion of the factory and the number of production lines for the upholstered furniture, we would be able to take up orders that are of a larger scale and for upholstered furniture with more complicated design and enhanced functionality and receive additional orders for upholstered furniture from our customers in turn increasing the turnover of our upholstered furniture segment. During the Track Record Period, the major procedure for the production of our upholstered furniture, such as cutting of foam and fabrics were being done by manually-operated equipments. With the additions of electronic and automated cutting and sewing machineries, we would be able to produce upholstered furniture which require finer craftsmanship, such as designs with different carvings and patterns. Further, the more spacious Upholstered Furniture Compartments would allow us to include machineries and equipment for painting, colouring and coating to be used in the production of our upholstered furniture. Furthermore, more advanced machineries are required for the production of upholstered furniture with enhanced functions such as massage chairs, functional beds and sofas and moisture-proof outdoor upholstered furniture. Please also refer to the paragraph headed "Continue to strengthen our product design, research and development capabilities — (iii) R&D of functional and smart furniture" in this section for the business strategy to enhance our R&D capabilities.

In addition, we had discussed with the Top Five Customers on their expected demand for upholstered furniture. We would continue to maintain our relationship with our existing customers in order to ensure future orders for our upholstered furniture products. In addition, we have been actively exploring potential new customers for our upholstered furniture products. In particular, we have been liaising with the PRC subsidiary of a Japanese furniture and home furnishing retail chain, being a company listed on the Tokyo Stock Exchange, regarding potential orders of our upholstered furniture. Based on the above, our Directors are of the view that the sale of upholstered furniture would increase in a steady pace upon the completion of the establishment of the Upholstered Furniture Compartment. On such basis, it is anticipated that the Upholstered Furniture Compartment would be able to achieve breakeven within the second year of operation.

The following table sets out our designed production capacity for FY2019 and the annual designed production capacity for the production of panel furniture and upholstered furniture after the completion of the construction of the new factory:

	Designed production capacity for FY2019	**Annual designed production capacity after completion of construction of the new factory**	**Approximate percentage increase (%)**
Panel furniture *(cubic metres)*	1,558,145	2,418,380*(Note)*	55.2%
Upholstered furniture *(pieces)*	65,340	785,340	1101.9%

Note: This is determined on the basis that certain production machines in Huisen Furniture Factory which are aged more than five years with an annual designed production capacity of approximately 272,250 cubic metres will be disposed of and production machines with an annual designed production capacity of approximately 291,696 cubic metres will be purchased.

We believe that, by improving our production capacity and increase our product offerings in upholstered furniture products, which are generally of higher value and higher margin, we would be able to capitalise on the growing demand for these products, strengthen the business relationship with our customers and improve our competitiveness and profitability.

Construction of the second phase of our Aigesen Factory

Taking into account our expansion plan to further enhance our production capacity of our panel furniture, we plan to enhance our production capacity for particleboards to cope with such expansion. We intend to establish a new manufacturing factory, which will be the second phase of our Aigesen Factory. We plan to procure land in close proximity to our

Aigesen Factory located in Nankang, Ganzhou, Jiangxi Province, the PRC for the development of a new factory which will be devoted to the production of particleboards, with more advanced and automated machineries and equipment.

In order to assess the feasibility of the proposed construction of the second phase of our Aigesen Factory, we had, among other things, (i) discussed with the relevant government authorities regarding the availability and cost of land for industrial use in Ganzhou; and (ii) discussed with some of the Top Five Customers to ascertain whether there would be sufficient demands for panel furniture in the near future.

After the second phase of our Aigesen Factory has commenced commercial production, it is expected that its designed production capacity will be of approximately 336,600 cubic metres of particleboard per annum. We expect to start procuring the land used for the second phase of our Aigesen Factory in first quarter of 2021 and commence the construction work in first half of 2021. We expect the construction work to be completed within first half of 2022 and the manufacturing facilities to be fully operational by second half of 2022. As at the Latest Practicable Date, we have not identify any land for acquisition for the development of the second phase of our Aigesen Factory.

It is expected that the development of the second phase of our Aigesen Factory will require capital expenditure in aggregate of approximately RMB597.3 million. The table below sets out the breakdown for such expenditure:

	RMB *(Approximate)*
Land and construction of factory *(Note 1 & 2)*	123.2 million
Machineries and equipment *(Note 3)*	474.1 million
Total:	597.3 million

Notes:

(1) Assuming the land would be approximately 150 mu, the acquisition cost of the land in Nankang area of Ganzhou would be approximately RMB12.8 million, which is determined with reference to the price of industrial land in Nankang area of approximately RMB85,000 per mu as announced by the Ganzhou Department of Land Resources Nankang Branch* (贛州市國土資源局南康分局) in December 2015 and confirmed by the relevant government authority in the PRC.

(2) The total construction cost of the factory would be approximately RMB110.4 million, which is determined with reference to the construction cost quoted by local construction company and the historical cost of construction of the Aigesen Factory.

(3) The estimated cost of acquiring the machineries is based on the historical capital expenditure on our purchase of similar machineries.

The total estimated capital expenditure for the development of second phase of our Aigesen Factory is expected to be approximately RMB474.3 million and RMB123.0 million for the FY2021 and FY2022, respectively. Our Directors expect that the estimated capital expenditures budget in relation to the above business expansion plan will be financed by our internal resources, external financing and net proceeds from the Global Offering.

The following table sets out the estimated average breakeven period, investment payback period and expected breakeven utilisation rate for the establishment of the second phase of our Aigesen Factory *(Note 1)*:

	Approximate breakeven period *(Note 2)*	**Approximate investment payback period** *(Note 3)*	**Approximate breakeven utilisation rate** *(Note 4)*
Second phase of the Aigesen Factory *(Note 5)*	5 years	13 years	90%

Notes:

(1) The information in the table is calculated based on our best estimation and on a series of assumptions speculative in nature and may not reflect actual circumstances.

(2) A new manufacturing factory achieves breakeven when its revenue is equal to its cost and expenses for that accounting period on accrual basis. The time required to achieve breakeven depends on various factors, including but not limited to general economic and market conditions, market competition, utilisation rate and price of raw materials.

(3) The investment payback period of a new manufacturing factory is the time required for the accumulated operating cash flow since the commencement of business operation is able to cover the total investment amount. The time required to achieve investment payback varies depending on various factors, including (i) the capital investment such as costs of machinery and equipment; and (ii) level of profitability achieved.

(4) The breakeven utilisation rate is calculated based on the overall utilisation rate of the new manufacturing factory of the year when such plan achieves breakeven.

(5) It is assumed that the commencement of operation of the manufacturing factory will take place in April 2022.

We have huge internal demand for particleboards for the production of our furniture products. In 6MFY2020, only approximately 24.6% of the total purchase of particleboards used in the production of our furniture had been manufactured by the existing Aigesen Factory. After the completion of the second phase Aigesen Factory and the new manufacturing factory for panel furniture and upholstered furniture, and assuming that both factories are fully utilised, the first and second phase of the Aigesen Factory would be able to manufacture and supply approximately 26.6% of the particleboard for the production of our panel furniture. Furthermore, it is expected that around 95% of the particleboards produced would be for our internal use and around 5% of the particleboards will be sold to external customers. Our Directors believe it is necessary for our Group to understand and respond quickly to changes in the market trend and customer requirement on the specification and quality of particleboards. By selling approximately 5% of the particleboards produced by the new factory to our external customers, we can obtain constant market feedback from our customers in order to improve the quality of our particleboards and to remain competitive in the panel furniture market.

Our Directors consider that the major benefit of the expansion of Aigesen Factory is that, by increasing the proportion of particleboards that are produced in-house by the Aigesen Factory, we would be in a better position to ensure timely supply of high quality particleboards for the production of our panel furniture, given that the particleboards produced by our Aigesen Factory has a relatively lower formaldehyde emission level than those sourced from other third party suppliers. Besides, it is more cost-efficient for our Group to produce particleboards in-house than purchasing from third party suppliers.

Based on the existing production cost of our Aigesen Factory and the cost of purchasing a similar type of particleboards from our suppliers, and assuming that (i) the expansion of Aigesen Factory is completed and Aigesen Factory would be operating at full utilisation level; (ii) Aigesen Factory would only produce particleboards with a thickness of 15mm, which is the most commonly used size of particleboard in the production of panel furniture of our Group during the Track Record Period; (iii) the average per unit cost of particleboard purchased from third-party suppliers would be the same as that in 6MFY2020; (iv) the average per unit production cost of particleboards of Aigesen Factory would be the same as that in 6MFY2020; and (v) approximately 95% of the particleboard produced by the Aigesen Factory would be supplied for the internal use of our Group, our Directors estimate that we would be able to achieve a cost-saving of around RMB40.0 million each year for using particleboards produced by Aigesen Factory instead of purchase from third party suppliers.

While there is huge internal demand for particleboards, we consider that it would take some time for the new factory to be in full operation, it is expected that the utilisation rate of the second phase of the Aigesen Factory will gradually increase from approximately 50% in the first year of operation to 90% in its fourth year of operation. In order to ensure a higher quality of the particleboards used in the production of our panel furniture, we plan to purchase imported machineries and equipment that are of high quality and thereby would incur a higher amount of capital expenditure, resulting in a higher level of depreciation expenses in the second phase of the Aigesen Factory. Therefore, it is expected that the new factory would require a longer time to achieve breakeven and investment payback.

The following table sets out our designed production capacity for FY2019 and the designed production capacity for the production of particleboards after the completion of the construction of the second phase of the Aigesen Factory:

	Designed production capacity for FY2019	Designed production capacity after completion of the Expansion Plan	Approximate percentage increase *(%)*
Particleboard *(cubic metres)*	336,600	673,200	100%

Upgrading our production line in our Huisen Furniture Factory

As at 30 June 2020, the average remaining useful life of the machineries and equipment in the production facilities of our Group was approximately 6.0 years and over 65.5% (based on historical acquisition cost) or 43.7% (based on net book value as of 30 June 2020) of our machineries and equipment in our Huisen Furniture Factory were used for more than five years. The table below sets out the remaining useful life of machineries and equipment used for more than five years by types at our Huisen Furniture Factory as at 30 June 2020:

Types of machineries and equipment	Average remaining useful life *(year)*	Total historical acquisition costs *(RMB'000)*	Net book value as of 30 June 2020 *(RMB'000)*
Preparation of material and board cutting machines	2.9	4,720	1,747
Processing machines *(Note 1)*	2.5	129,520	47,676
Installation and other ancillary equipment *(Note 2)*	2.9	22,608	6,574
	2.6	156,848	55,997

Note 1: these machines mainly include polishing and edge bending machines and equipment.

Note 2: the equipment mainly includes dusting removal, installation and other ancillary equipment.

The aging of these machineries and equipment could affect their operational efficiency, which could in turn adversely affect our production output and costs. To remain competitive, our Directors believe that it is important for us to ensure that we have the capability to produce furniture at maximise operational efficiency and on the other hand minimise production costs. As such, we intend to acquire new machineries and equipment for our Huisen Furniture Factory which (i) will have broader functionality in terms of production processes and techniques involved, capable of producing a larger variety of products using more advanced production techniques that are able to meet the increasingly demanding requirements of our customers; and (ii) enhance production line automation. We believe that the acquisition of more advanced and automated machineries and equipment would assist us to keep up with technological advances, stay competitive and enhance production efficiency through automatic production line. We have conducted detailed market research relating to our existing markets and potential target markets (in terms of matters such as market trends as well as customer preferences and needs). We have also conducted preliminary assessment of the condition of the machineries and equipment at our Huisen Furniture Factory and obtained quotations from the suppliers regarding different kinds of machineries and equipment and identified the models of machineries and equipment for the upgrade of our production lines. We plan to further (i) assess reorganisation of the layout at our production facilities; and (ii) carry out necessary rearrangements and training of staff to accommodate the introduction of the new machinery and equipment.

The acquisition cost of more advanced and automated machineries and equipment is estimated to be approximately RMB130.0 million, and will be financed by our internal resources, external financing and net proceeds from the Global Offering, among which, approximately RMB100.0 million is expected to be used in FY2021 and approximately RMB30.0 million is expected to be used in FY2022. It is expected that approximately RMB52.0 million of the net proceeds from the Global Offering will be used for the upgrading of our production line, among which approximately RMB31.2 million is expected to be used in FY2021 and approximately RMB20.8 million is expected to be used in FY2022.

Continue to strengthen our product design, research and development capabilities

During the Track Record Period, our R&D department is mainly responsible for design and development of furniture products based on the conceptual designs either from the external design house in the U.S. or our customers and offer technical advice to our customers to optimise the product features and appearance.

With improving living standards and consumers' pursuit for fashion trends, end users' demands are becoming dynamic with regard to product function, design and quality. F&S also advised that future trend of the panel furniture market will tend to put additional emphasis on the quality, design and functionality of the products. Accordingly, it is our strategy to further expand our R&D capability and focus not only on product appearances but also on functionality and high-tech features of our products, such as adding certain electronic accessories and digital functions including touch panel, motion sensor and temperature transducer to our furniture products, these furniture products will also be using production materials with higher environmental standard, which is different from our existing furniture products.

Our Directors believe that the enhanced R&D capabilities in these respects will provide our Group with more flexibility in product design and development, widening its product offerings, improving the quality and functionality of its products, enhancing its ability to keep up with the changing demands of the end-users market in terms of design, functionality, product quality and safety and environmental standards, and will be beneficial to our business development in a long run. The expansion plans for R&D as set out below could be one of the drivers for the future growth of our sale. As advised by F&S, with the increasing concern over chemicals contained in furniture products, many countries have been tightening the regulation over formaldehyde emissions. The continuous increase in public awareness in formaldehyde emissions of furniture products has been generating more demand for eco-friendly furniture products in the U.S. and the PRC. F&S further advised that, because of the growing implementation of IOT (Internet of things) solution in home products, there has been a remarkable growth in the smart home products market (i.e. appliances and devices that are connected and controlled by networked devices). The market size of smart home products in PRC had increased at a CAGR of approximately 24.8% during the period from 2014 to 2019 and is expected to grow continuously at a CAGR of approximately 14.1% from 2019 to 2024. Accordingly, we consider that we would be able to further capture the market demand and achieve further growth in the sales of our furniture products by leveraging the increase demand in smart home products and the development of smart furniture with our expansion plans for R&D.

(i) Dongguan R&D centre

We intend to establish a R&D centre in Dongguan with our own research, design, testing centre and showroom for commercialisation of our furniture products, acquiring machinery, equipment and raw materials for designing and production of prototype, and recruiting around 20 experienced designers with at least five years of experience in furniture design for improving and expanding our in-house R&D department. The function of the showroom is for display of our latest furniture products, which include the functional and smart furniture developed by our Group and Jiangxi University of Science and Technology as mentioned in the paragraph headed "Continue to strengthen our product design, research and development capabilities — (iii) R&D of functional and smart furniture" in this section. Our Directors are of the view that, as compared with the current location of our production facilities, Dongguan is a more convenient and accessible location for our customers. Such locational convenience makes it easier for our Group to recruit and attract designers who possess the relevant experience.

The newly recruited designers will be mainly responsible for the development of our new products at the Dongguan R&D centre, including functional and smart furniture and new components and fittings for panel furniture, and cooperating and liaising with the staff from the Chinese Academy of Sciences Lihua Institute of Technology* (中國科學院理化技術研究所), Jiangxi University of Science and Technology and Jiangxi Environmental Engineering Vocational College* (江西環境工程職業學院) based on the scope of work responsible by our Group under the respective framework agreement. After R&D process under the relevant framework agreement, the designers will focus on the commercialisation of the furniture product by modifying the relevant furniture products based on the product requirement and specification from each customer. As the nature of the research and development works and the required skillset to be conducted at the Dongguan R&D centre are different from that of our existing products and requires higher standard on the technical aspect, the cost for the R&D on these new products and production materials is substantially higher as compared with our existing R&D cost and it is necessary to recruit designers with relevant experience and qualification to assist the existing R&D department of our Group.

The difference between the R&D works to be performed at the Dongguan R&D centre and our existing R&D department is that our existing R&D staff are mainly responsible for enhancing the existing conceptual design of furniture products (either from our customers or the external design house engaged by us) from the perspective of structural design, production of drawings and prototype of furniture products and collaborating with the production department in the production of the furniture products. Due to the nature of the responsibilities of our existing R&D staff, the R&D expenses incurred by us during the Track Record Period was relatively low. For further explanation relating to the current R&D function of our Group, please refer to the section headed "Business — Research and Development" for further details. Therefore, we mainly focus on their technical skills and experience (especially in the furniture industry) in recruiting our existing R&D staff. On the other hand, R&D staff to be recruited to join the Dongguan R&D centre will be responsible for the research and development of new products of our Group by integrating the skills and technique in connection with, amongst others, the use of formaldehyde free panel boards and production materials that are not currently used by us and the development of functional and smart furniture products and the technical aspect of such product is different from the existing furniture products that we are offering. Therefore, the nature of the work of our existing R&D department and the Dongguan R&D centre are completely different and it is necessary for us to recruit additional R&D staff who possess strong research skills, substantive design and development experience and higher educational background to work at the Dongguan R&D centre.

We expect to incur approximately RMB28.0 million for leasing the premises for the Dongguan R&D centre, acquiring machinery, equipment and raw materials for designing and production of prototype, and recruiting around 20 experienced designers with at least five years of experience in furniture design, among which approximately RMB8.5 million is expected to be used in FY2021, approximately RMB8.5 million is expected to be used in FY2022 and approximately RMB11.0 million is expected to be used in FY2023.

(ii) R&D of formaldehyde emission free panel boards

We intend to strengthen our product design and development capability in order to produce furniture with more complicated designs, using new production materials or developing formaldehyde emission free panel boards, and to further expand our furniture product mix so as to meet changing market demands in diversified markets worldwide. In particular, for the formaldehyde emission free panel boards, according to the F&S Report, there is an increasing demand for wooden furniture with lower formaldehyde content from consumers in the U.S. market due to higher environmental awareness and improving living standard. As such, we consider that it is necessary for us to improve our R&D capability in order to capture the raising market demand from this type of furniture product. In respect of the development of formaldehyde emission free panel boards, we intend to (i) develop a variety of formaldehyde free adhesive which could be applied to, but not limited to, the manufacture of panel board and in the manufacturing process of our panel furniture; (ii) develop new manufacturing process to integrate formaldehyde free adhesive to the manufacture of panel boards; and (iii) adjust certain existing machines and equipment in Aigesen Factory to allow its production line to be able to manufacture formaldehyde emission free panel boards.

To implement such plan, we have entered into a framework agreement with Chinese Academy of Sciences Lihua Institute of Technology* (中國科學院理化技術研究所). Under the framework agreement, such external research institution will be responsible for, among others, research and develop the formaldehyde free adhesive and the new manufacturing process to integrate formaldehyde free adhesive to the manufacture of panel boards. We will be responsible to, among others, allocate certain of our production staff, which mainly includes the designers recruited for the Dongguan R&D centre to cooperate with the external research institution in the research and development of the formaldehyde free adhesive, provide information on the necessary specification and requirements of panel board to the external research institution, conduct testing of the new manufacturing process and implement the proposed adjustment of the existing machines and equipment in Aigesen Factory to allow its production line to manufacture formaldehyde emission free panel boards using the new manufacturing process. We will be the intellectual property rights owner for the formaldehyde emission free panel board and the formaldehyde free adhesive developed in this research and development with the external research institution. Under the framework agreement, the relevant R&D work is expected to commence in 2021 and to complete within three years from 2021.

We expect to incur approximately RMB29.0 million for developing formaldehyde emission free panel boards, among which approximately RMB12.7 million is expected to be used in FY2021, approximately RMB12.7 million is expected to be used in FY2022 and approximately RMB3.6 million is expected to be used in FY2023.

(iii) R&D of functional and smart furniture

We have entered into a framework agreement with Jiangxi University of Science and Technology for developing functional and smart furniture products. In terms of the development of functional and smart furniture products, we plan to enhance the functionality of our furniture by incorporating certain electronic accessories and functions such as touch panel, motion sensor and temperature transducer. Such technology can be applied in different kinds of product, for example, to incorporate an automatic lifting function in our tables and beds controllable by a touch panel targeting disabled and elderly people. Under the framework agreement, the university will be responsible for, among others, the research and technological development of the functional and smart furniture products, while our Group will provide the funding for the research and development. The university will allocate some of their staff to cooperate with our R&D department staff, which mainly includes the designers recruited for the Dongguan R&D centre, in our production facilities for the R&D of the functional and smart furniture products. Our R&D department would modify the design of our furniture products to allow for the intended function and our cooperating institution would be responsible for developing the necessary electronic accessories according to our design. Under the framework agreement, the relevant R&D work is expected to commence in 2021.

We expect to incur approximately RMB18.0 million for developing functional and smart furniture products, among which approximately RMB7.6 million is expected to be used in FY2021, approximately RMB7.6 million is expected to be used in FY2022 and approximately RMB2.8 million is expected to be used in FY2023.

(iv) R&D of panel furniture components and fittings

We have entered into a framework agreement with Jiangxi Environmental Engineering Vocational College* (江西環境工程職業學院) for jointly developing panel furniture components and fittings, including, among others, lock, connector, chain, slide, handle and wheel that are made of composite materials which has a higher durability that allow higher flexibility and functionality of the design of our products. Under the framework agreement, the vocational college will be responsible for the research and technological development of the panel furniture components, while our Group will provide all the necessary assistance for the development of the panel furniture components and fittings, such as funding and research venue, facilities and equipments. The vocational college will allocate some of their staff to cooperate with our R&D staff, which mainly includes the designers recruited for the Dongguan R&D centre, for the R&D of the panel furniture components and fittings. We will be the intellectual property rights owner for all the furniture components and fittings developed in this process. Under the framework agreement, the relevant R&D work is expected to commence in 2021. We expect that the panel furniture components and fittings developed in this research and development process can be used in our panel furniture products as well as our functional and smart furniture products.

We expect to incur approximately RMB15.0 million for developing panel furniture components, among which approximately RMB6.4 million is expected to be used in FY2021, approximately RMB6.4 million is expected to be used in FY2022 and approximately RMB2.2 million is expected to be used in FY2023.

In total, we expect to incur approximately RMB90.0 million for strengthening our product design, research and development capabilities, among which approximately RMB70.4 million will be financed by the net proceeds from the Global Offering and approximately RMB19.6 million will be financed by a combination of our internal resources and external financing.

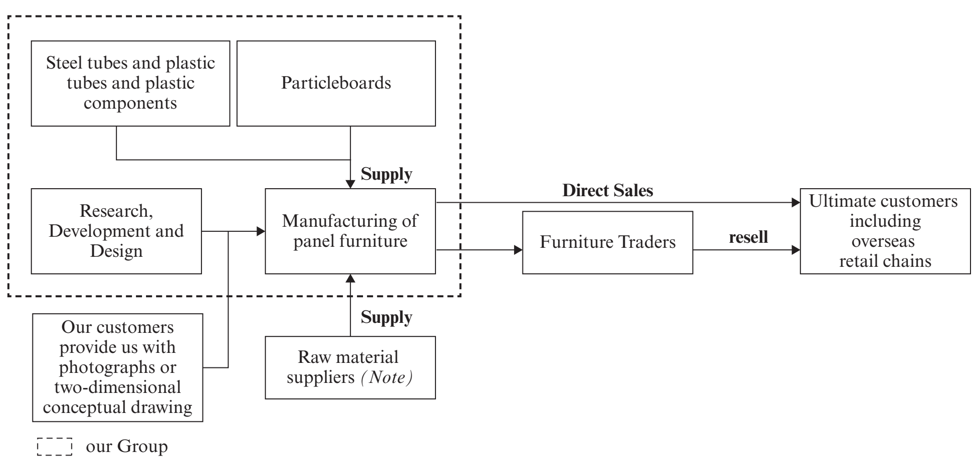
Expanding the business through acquisitions of PRC branded furniture companies with proven track record

We intend to actively pursue opportunities to grow and enhance our businesses and products. According to the F&S Report, the overall PRC panel furniture sales is expected to grow from approximately RMB382.1 billion in 2020 to RMB461.3 billion in 2024 at a CAGR of approximately 4.8%. As such, we intend to acquire PRC branded furniture companies with proven reputation and track record to expand our product mix with an intention to expand our sales within the PRC market. The acquisitions of PRC brand furniture companies from third parties will depend on a number of factors including, the availability and valuation of acquisitions targets, the cost of funding and our business development needs. As at the Latest Practicable Date, we did not have any acquisition targets.

OUR BUSINESS MODEL

We are a manufacturer of furniture products in the PRC with a primary focus on the manufacture and sales of panel furniture by way of ODM. We offer comprehensive manufacturing solution to our customers, with the capabilities to design, develop and manufacture functional and economical panel furniture, upholstered furniture and other furniture such as outdoor furniture and sports and recreational equipment. Designs for our products are either designed by us or provided to us by our customers in the form of photographs or two-dimensional conceptual drawing, and our R&D department will translate these designs into three-dimensional computer drawings and create a prototype before commercial production thereof. We have also adopted an vertically integrated manufacturing operation by not only manufacture our furniture at our production facilities in the PRC but also the production materials thereof, including particleboards, steel tubes, plastic tubes and plastic components for our own production use. Our furniture products were mainly sold to the U.S. market on wholesale basis, including overseas retail chains directly or through our customers which were furniture traders during the Track Record Period.

The following diagram sets out our business model:



Note: We also purchase raw materials for our production from external suppliers (including particleboards, MDFs, metal and plastic components).

OUR PRODUCTS

We offer a wide range of furniture products mix for home, office and commercial uses. Our products comprise of three categories, namely, (i) panel furniture (such as television cabinets, bookshelves, shelves, desks and coffee tables); (ii) upholstered furniture (such as sofas); and (iii) others, which comprises of, outdoor furniture (such as outdoor tables, outdoor stools and fire pit tables) and sports and recreational equipment (such as table tennis table, foosball tables and pool tables). We started commercial production of upholstered furniture, outdoor furniture and sports and recreational equipment since 2017. Most of our products were sold to our customers without any brands and we understand that such branding labels would be applied by the downstream customers.

The table below sets out the breakdown of our revenue by product types during the Track Record Period:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (*unaudited*)	*%*	*RMB'000*	*%*
Panel furniture *(Note 1)*	2,820,422	99.88	3,177,352	95.50	3,483,930	93.68	1,685,252	96.13	1,499,899	91.98
Upholstered furniture	2,433	0.08	68,391	2.05	111,556	3.00	25,635	1.46	58,736	3.60
Others *(Note 2)*	1,025	0.04	81,478	2.45	123,580	3.32	42,138	2.41	72,107	4.42
Total	**2,823,880**	**100.00**	**3,327,221**	**100.00**	**3,719,066**	**100.00**	**1,753,025**	**100.00**	**1,630,742**	**100.00**

Notes:

1. The revenue of panel furniture included the revenue from sales of particleboards and/or our retail sales, which was approximately RMB6.2 million, RMB37.8 million, RMB31.6 million, RMB18.1 million and RMB6.4 million for each of the FY2017, FY2018, FY2019, 6MFY2019 and 6MFY2020 and accounted for approximately 0.2%, 1.1%, 0.9%, 1.0% and 0.4% of our revenue for each of the respective years/periods.

2. Others include outdoor furniture and sports and recreational equipment.

The pictures below are samples of furniture products manufactured and sold by us:

(A) Panel furniture

(i) Cabinet

Television cabinets

(ii) Shelf

Bookshelves

(iii) Chair

Chairs

(iv) Table

Coffee tables

(B) Upholstered furniture

Sofas

(C) Others

(i) Outdoor furniture

Outdoor tables

Outdoor stools

Fire pit tables

(ii) Sports and recreational equipment

Table tennis tables

Foosball tables

Pool tables

All of our furniture products produced during the Track Record Period were made to order. Upon receipt of such orders, our sales and marketing department, production and manufacturing department and procurement department will jointly formulate a production schedule and production material procurement schedule.

BUSINESS OPERATIONS

Our business operations can be categorised into the following key stages and our general business operations are illustrated below:

	Customers to obtain quotation (approximately one month) →	Placing orders by customers (approximately seven days after the pre-production sample(s) is confirmed) →	Production (approximately one to seven days) →	Warehousing of finished products pending delivery (approximately one to seven days) →	*For delivery of overseas sales:* approximately one to two days (to PRC port) *For delivery of domestic sales:* Our PRC customers will pick up the products from our factories
Responsible department:	Sales and Marketing and R&D	Sales and Marketing	Production and Manufacturing	Inventory and Logistics	Inventory and Logistics
	• Customers provide descriptions of the requirements of appearance and functionality of product and/or discuss their needs with us • Produce prototype	• Customers place order with us • Finalise designs and specifications of products and negotiate material terms of order • Our sales and marketing department, production and manufacturing department and procurement department will jointly formulate a production schedule and production material procurement schedule • Produce pre-production sample	• Proceed with production in accordance with the order • Quality control inspection is performed throughout the manufacturing process • Please refer to the paragraphs headed "Manufacturing Process" and "Quality Control — Furniture" in this section for further details	• Arrange storage of finished products which passes quality control	• *For overseas sales:* Deliver products via engaging external logistics companies to PRC ports for export to overseas as per our customers request • Our furniture products for export are primarily sold on free-on-board (at PRC ports) basis and therefore our customers are generally responsible for the compliance with the applicable import and other local product safety and quality requirements of the relevant overseas markets • *For domestic sales:* Our PRC customers will pick up the products from our factories

CUSTOMERS

During the Track Record Period, our customers mainly comprised overseas retail chains and furniture traders. We understand that these furniture traders resold our furniture products to various overseas markets including U.S., Canada, Singapore, Malaysia, Vietnam, Europe and other parts of the world.

The following table sets out the numbers of customers of our furniture products (Note 2) during the Track Record Period:

	FY2017	FY2018	FY2019	6MFY2020
Number of furniture traders **(A)**	21	25	19	12 (Note 3)
Number of new furniture trader of our furniture products (Note 2)	9	9	5	—
	FY2017	**FY2018**	**FY2019**	**6MFY2020**
Number of retail chains (Note 1) **(B)**	5	6	5	4
Number of new retail chain customers of our furniture products (Note 2)	0	1	0	—
Total number of customers of our furniture products (Note 2) **(C)** **C = A + B**	26	31	24	16

Notes:

1. Four of our customers who are retail chains during the Track Record Period are operating under the brand of Walmart.

2. The number of customers of our furniture products excludes our retail sales which accounted for less than 0.1% of our total revenue during the Track Record Period.

3. As we have not entered into long-term agreement with a majority of our customers, the number of our trader customers fluctuate from time to time. The seven customers who had placed order(s) with us during FY2019 but not in the 6MFY2020 had a relatively smaller transaction size with us which accounted for less than 0.1% of our total revenue in FY2019 and five of them had only commenced business relationship with us during FY2019.

Revenue by sales channels

The following table sets out the revenue and percentage breakdown by different sales channels during the Track Record Period:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (*unaudited*)	*%*	*RMB'000*	*%*
Sales to retail chains										
— Overseas retail chains	603,695	21.3	793,998	23.9	957,461	25.7	431,622	24.6	398,919	24.5
— PRC retail chain	470	0.1	7,215	0.2	—	—	—	—	—	—
Sales to furniture traders										
— Hong Kong and overseas furniture traders	2,068,034	73.2	2,253,748	67.7	2,487,015	66.9	1,189,230	67.8	1,130,576	69.3
— PRC furniture traders *(Note)*	151,681	5.4	272,260	8.2	274,590	7.4	132,173	7.6	101,247	6.2
Total	2,823,880	100.0	3,327,221	100.0	3,719,066	100.0	1,753,025	100.0	1,630,742	100.0

Note: The revenue of the PRC furniture traders includes the revenue from the sales of particleboards and/or our retail sales, which accounted for approximately 0.2%, 1.1%, 0.9%, 1.0% and 0.4% of our revenue for each of the FY2017, FY2018, FY2019, 6MFY2019 and 6MFY2020, respectively.

Geographical distribution

Based on the delivery destinations of our products requested by our customers, our furniture products were exported to more than 55 countries and regions worldwide during the FY2017, FY2018 and FY2019 and to more than 30 countries and regions worldwide during the 6MFY2020.

The table below sets out details on the breakdown of our sales by geographical regions during the Track Record Period, based on the delivery destinations of our products as requested by our customers:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (*unaudited*)	*%*	*RMB'000*	*%*
United States	2,045,698	72.4	2,308,095	69.4	2,669,892	71.8	1,219,368	69.6	1,150,142	70.5
PRC	152,151	5.4	282,380	8.5	283,354	7.6	132,857	7.6	101,247	6.2
Singapore	233,695	8.3	304,253	9.1	179,444	4.8	114,808	6.5	73,482	4.5
Malaysia	52,508	1.9	68,954	2.1	88,184	2.4	61,351	3.5	42,280	2.6
Vietnam	10,279	0.3	55,747	1.7	79,612	2.1	55,147	3.1	33,370	2.1
Canada	47,311	1.7	52,819	1.6	68,331	1.8	29,557	1.7	26,563	1.6
Hong Kong	14,502	0.5	—	—	—	—	—	—	—	—
Others	267,736	9.5	254,973	7.6	350,249	9.5	139,937	8.0	203,658	12.5
Total	2,823,880	100.0	3,327,221	100.0	3,719,066	100.0	1,753,025	100.0	1,630,742	100.0

The following table sets out the countries or regions (which contributed in aggregate over 80% of our revenue) and total number of countries or regions to which we exported our furniture products and their respective sales channels during the Track Record Period:

	Countries or regions to which we exported our furniture products		Percentage of our revenue	Sales channels to countries or regions through	
			(%)	*(a) Number of overseas retail chains*	*(b) Number of furniture traders*
FY2017	(1)	U.S.	72.4	2	9
	(2)	Singapore	8.3	1	8
			80.7		
FY2018	(1)	U.S.	69.4	3	10
	(2)	Singapore	9.1	2	9
	(3)	Malaysia	2.1	2	8
			80.6		
FY2019	(1)	U.S.	71.8	3	9
	(2)	Singapore	4.8	1	5
	(3)	Malaysia	2.4	1	5
	(4)	Vietnam	2.1	1	6
			81.1		
6MFY2020	(1)	U.S.	70.5	1	6
	(2)	Singapore	4.5	1	5
	(3)	Malaysia	2.6	1	6
	(4)	Vietnam	2.1	1	5
	(5)	Canada	1.6	2	6
			81.3		

During the Track Record Period, our furniture products were mainly exported to U.S. markets, including overseas retail chains, directly or through our customers which are furniture traders. The number of overseas retail chains and furniture traders and the major overseas markets of our furniture products remained relatively stable during the Track Record Period. Further, we exported our furniture products to 63, 56, 60 and 33 countries or regions for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Such changes in our market coverage were mainly attributable to the adjustments in the distribution networks of some of our existing customers and our sales to new customers with different geographical focus during the Track Record Period.

Top five customers

Our five largest customers accounted for approximately 86.1%, 79.7%, 84.2% and 84.6% of our total revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively, and our largest customer accounted for approximately 20.7%, 22.0%, 23.9% and 24.1% of our total revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively.

FY2017

Customer	Main business of the customers	Scale of operation	Major end customers	Products sold	Years of relationship with our Group up to the Latest Practicable Date *(approximate)*	Credit terms	Payment method	Revenue *(RMB'000)*	Percentage of our revenue
Tianhong	Furniture trader	A Hong Kong private company which has around 30 to 40 employees	Around 30 end customers which are retailers and distributors mainly from, among others, United States, Canada, Germany and Southeast Asia	Panel furniture	5.0	90 days	By telegraphic transfer	584,276	20.7%
Walmart	Overseas retail chain	An American multinational retail corporation with around 2.3 million employees around the world	End users of panel furniture	Panel furniture	8.0	90 days	By telegraphic transfer	560,017	19.8%
Carrie	Furniture trader	A Hong Kong private company which has around 20 to 30 employees	Around 20 to 30 end customers which are importers and retailers mainly from, among others, United States and Europe	Panel furniture	8.0	90 days	By telegraphic transfer	457,754	16.2%
Senyue	Furniture trader	A Hong Kong private company which has around 20 to 30 employees	Around 30 to 40 end customers which are retailers and distributors mainly from, among others, United States	Panel furniture	5.0	90 days	By telegraphic transfer	438,224	15.5%
Home Nations Inc.	Furniture trader	A U.S. private company incorporated in Missouri which has around 20 to 35 employees	Around 20 to 30 end customers which are retailers and institutional customers mainly from, among others, United States	Panel furniture	5.0	90 days	By telegraphic transfer	390,979	13.9%
							Total	**2,431,250**	**86.1%**

FY2018

Customer	Main business of the customers	Scale of operation	Major end customers	Products sold	Years of relationship with our Group up to the Latest Practicable Date *(approximate)*	Credit terms	Payment method	Revenue *(RMB'000)*	Percentage of our revenue
Walmart	Overseas retail chain	An American multinational retail corporation with around 2.3 million employees around the world	End users of panel furniture	Panel furniture	8.0	90 days	By telegraphic transfer	732,186	22.0%
Home Nations Inc.	Furniture trader	A U.S. private company incorporated in Missouri which has around 20 to 35 employees	Around 20 to 30 end customers which are retailers and institutional customers mainly from, among others, United States	Panel furniture, upholstered furniture and others	5.0	90 days	By telegraphic transfer	591,084	17.8%
Tianhong	Furniture trader	A Hong Kong private company which has around 30 to 40 employees	Around 30 end customers which are retailers and distributors mainly from, among others, United States, Canada, Germany and Southeast Asia	Panel furniture, upholstered furniture and others	5.0	90 days	By telegraphic transfer	507,985	15.3%
Senyue	Furniture trader	A Hong Kong private company which has around 20 to 30 employees	Around 30 to 40 end customers which are retailers and distributors mainly from, among others, United States	Panel furniture, upholstered furniture and others	5.0	90 days	By telegraphic transfer	455,924	13.7%
Carrie	Furniture trader	A Hong Kong private company which has around 20 to 30 employees	Around 20 to 30 end customers which are importers and retailers mainly from, among others, United States and Europe	Panel furniture, upholstered furniture and others	8.0	90 days	By telegraphic transfer	363,597	10.9%
							Total	**2,650,776**	**79.7%**

FY2019

Customer	Main business of the customers	Scale of operation	Major end customers	Products sold	Years of relationship with our Group up to the Latest Practicable Date *(approximate)*	Credit terms	Payment method	Revenue *(RMB'000)*	Percentage of our revenue
Walmart	Overseas retail chain	An American multinational retail corporation with around 2.3 million employees around the world	End users of panel furniture	Panel furniture	8.0	90 days	By telegraphic transfer	890,240	23.9%
Home Nations Inc.	Furniture trader	A U.S. private company incorporated in Missouri which has around 20 to 35 employees	Around 20 to 30 end customers which are retailers and institutional customers mainly from, among others, United States	Panel furniture and upholstered furniture	5.0	90 days	By telegraphic transfer	753,037	20.2%
Tianhong	Furniture trader	A Hong Kong private company which has around 30 to 40 employees	Around 30 end customers which are retailers and distributors mainly from, among others, United States, Canada, Germany and Southeast Asia	Panel furniture and upholstered furniture	5.0	90 days	By telegraphic transfer	555,306	14.9%
Senyue	Furniture trader	A Hong Kong private company which has around 20 to 30 employees	Around 30 to 40 end customers which are retailers and distributors mainly from, among others, United States	Panel furniture and upholstered furniture	5.0	90 days	By telegraphic transfer	488,479	13.1%
Carrie	Furniture trader	A Hong Kong private company which has around 20 to 30 employees	Around 20 to 30 end customers which are importers and retailers mainly from, among others, United States and Europe	Panel furniture and upholstered furniture	8.0	90 days	By telegraphic transfer	445,178	12.0%
							Total	**3,132,240**	**84.2%**

6MFY2020

Customer	Main business of the customers	Scale of operation	Major end customers	Products sold	Years of relationship with our Group up to the Latest Practicable Date *(approximate)*	Credit terms	Payment method	Revenue *(RMB'000)*	Percentage of our revenue
Walmart	Overseas retail chain	An American multinational retail corporation with around 2.3 million employees around the world	End users of panel furniture	Panel furniture and upholstered furniture	8.0	90 days	By telegraphic transfer	393,581	24.1%
Home Nations Inc.	Furniture trader	A U.S. private company incorporated in Missouri which has around 20 to 35 employees	Around 20 to 30 end customers which are retailers and institutional customers mainly from, among others, United States	Panel furniture	5.0	90 days	By telegraphic transfer	312,861	19.2%
Tianhong	Furniture trader	A Hong Kong private company which has around 30 to 40 employees	Around 30 end customers which are retailers and distributors mainly from, among others, United States, Canada, Germany and Southeast Asia	Panel furniture and upholstered furniture	5.0	90 days	By telegraphic transfer	242,449	14.9%
Senyue	Furniture trader	A Hong Kong private company which has around 20 to 30 employees	Around 30 to 40 end customers which are retailers and distributors mainly from, among others, United States	Panel furniture and upholstered furniture	5.0	90 days	By telegraphic transfer	229,423	14.1%
Carrie	Furniture trader	A Hong Kong private company which has around 20 to 30 employees	Around 20 to 30 end customers which are importers and retailers mainly from, among others, United States and Europe	Panel furniture and upholstered furniture	8.0	90 days	By telegraphic transfer	201,056	12.3%
							Total	**1,379,370**	**84.6%**

To the best knowledge and belief of our Directors, there is no present or past relationship (including but not limited to, financial, family or employment relationship) between the respective directors, shareholders and beneficial owners of Home Nations Inc., Tianhong, Senyue, Carrie and Walmart on one part and us, our Shareholders, our Directors, employees or their respective associates on the other part. Furthermore, to the best knowledge and belief of our Directors, there is no present or past relationship amongst our five largest customers and/or their respective associates during the Track Record Period.

During the Track Record Period, all of our five largest customers were Independent Third Parties. To the best of the knowledge and belief of our Directors, none of our Directors, their respective close associates or our Shareholders who owns more than 5% of our issued Shares as at the Latest Practicable Date had any interest in any of our five largest customers during the Track Record Period.

Purchases from our five largest customers accounted for approximately 86.1%. 79.7%, 84.2% and 84.6% of our total revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. We derive a substantial proportion of our revenue from the Top Five Customers, please refer to the section headed "Risk Factors — Risks Relating to our Business — We do not have long-term purchase commitments with some of our customers, which expose us to potential volatility in our revenue and our sales and therefore our business may be materially and adversely affected in the event that we lose some or all of our major customers" of this prospectus for the details of the possible risk we face. As such, we plan to increase our sales in the U.S. and the PRC to capitalise on the growing opportunities in the U.S. and PRC market which is expected to further increase our revenue and diversify our customer base. Please refer to the paragraph headed "Business strategies" in this section for further details of our business strategy to increase in our production capacity for panel furniture and expansion of our product range to increase our sales and in particular, to capture the growing opportunities in the U.S. and to expand our sales within the PRC market.

Sales and payment

Our furniture products are made to order. We have entered into legally binding framework agreement with four of the Top Five Customers, for the sales of our furniture products. Thereafter, sales will be placed through separate purchase orders. For other customers, sales will be placed through purchase orders. Key terms such as the quantity, selling price, time and destination of delivery, product specifications and payment terms are set out in purchase orders.

Framework agreement

We have entered into legally binding framework agreements with each of Carrie, Tianhong, Senyue and Walmart, four of the Top Five Customers. A summary of the major terms of the framework agreement is set forth below:

Term	No specific term specified or for a term of three years
Rights and obligations of customers	Our customers' designated label shall be affixed to our packaging. Where our customer delays in settling its payment within the stipulated time as set out in the purchase order it shall pay damages to us calculated at 0.05% of the total purchase amount as set out in the purchase order (calculated on daily basis) but such damages shall not exceed 5% of the outstanding amount of the total purchase amount.
Our obligations	We are required to deliver the relevant furniture products in accordance with the purchase orders placed by the customer and the products supplied by us must conform to the pre-production sample confirmed by the customer. If we fail to deliver our furniture products within the stipulated time as set out in the purchase order, we shall pay damages of an amount which is no greater than 5% of the total purchase amount as set out in the purchase order.
Prices, payment and credit terms	Either (i) does not set out the prices of the furniture products to be supplied by us. Such shall be set out in separate purchase orders which shall be mutually agreed by both parties; or (ii) the prices (in RMB) for the products previously ordered shall not be lower than that set out in the purchase orders in 2018.*(Note 1)* Credit terms of 90 days after the shipment/the issuance of the shipping documents and payment shall be made by telegraphic transfer.
Minimum purchase amounts	Either (i) no minimum purchase amounts imposed by us; or (ii) the purchase amounts shall not be less than the amounts purchased from us in 2018.*(Note 2)*
Return of the products	We shall, among others: (a) accept the return of defective or nonconforming products and make a refund; or

	(b) replace the defective furniture products with new ones which conform to the specifications, quality and performance as stipulated in the purchase orders, and bear the expenses incurred to and direct losses sustained by the customer. Where our product is the subject of recall, we shall be responsible for all matters and costs associated with such recall including, among others, all expenses and losses incurred by our customer in connection with the recall.
Product quality	The products must conform to the confirmed sample and goods designated by our customer.
Product liability	No specific provision regarding product liability of our product under the framework agreement.
Inspection rights	After the delivery of products to the designated port by our customers and after inspection, if the quality, quantity or specification of the products are discovered by our customers to be not in conformity with that as stated in the purchase orders, our customers have the right (i) to reject such products within a certain number of days as stated in the framework agreement after the arrival of such product at the relevant designated port; or (ii) to arrange a third party to conduct an inspection on the relevant products for making a claim against us. *(Note 3)*
Compliance with standard	Our products are required to comply with the laws and regulations in which the customer is operated, including but not limited to the laws relating to environmental protection. *(Note 4)*
Intellectual property rights	Either (i) our customer has sole discretion to reject our product if the customer finds that the previously ordered product infringes a trademark, patent or copyright; or (ii) no specific provision regarding the infringement of third-party's intellectual property rights under the framework agreement.
Termination	(i) Either party may terminate the framework agreement by giving 30 days notice to the other; or (ii) if we delay in delivery for over three weeks, our customer shall cancel the relevant contracts or purchase orders; or (iii) if we delay in delivery for over ten weeks, our customer shall terminate the framework agreement.

Notes:

(1) The clause in relation to the prices of products previously ordered shall not be lower than that set out in the purchase orders in 2018 is only applicable to the legally binding framework agreement entered into between us and (i) Carrie, (ii) Tianhong and (iii) Senyue.

(2) The clause in relation to purchase amounts not less than the amounts purchased from us in 2018 is only applicable to the legally binding framework agreement signed between us and (i) Carrie, (ii) Tianhong and (iii) Senyue. Such minimum purchase amount is not based on a particular product type. As advised by our PRC Legal Adviser, if the relevant customer fails to comply with such clause, our Group shall have the right to claim for the shortfall or any damages suffered by our Group in relation to such failure to meet such minimum purchase amount.

(3) This clause is only applicable to the legally binding framework agreement entered into by us with each of Carrie, Tianhong and Senyue.

(4) This clause is only applicable to the legally binding framework agreement entered into by us with Walmart.

During the Track Record Period, we did not have any dispute with our major customers which would have had a material impact on our business, financial condition or results of operations.

During the Track Record Period, most of our export sales of furniture products were denominated and settled in US$ by telegraphic transfer and all of the domestic sales of furniture products were denominated and settled in RMB by bank transfer.

We typically offer credit period of up to 90 days to our export sales customers and up to 30 days for domestic sales customers. We will review the creditworthiness of customers after conducting business with them for a certain period of time, and credit period may be granted to these customers.

We review and monitor our overdue balances and receivable balances on an ongoing basis, and our finance department generates periodic trade receivables ageing report for review by our senior management to alert them of overdue balances. To reduce instances of overdue balances, our sales and marketing department will communicate with our customers and remind them of payment amounts in advance of payment dates. Trade receivables balances that are outstanding for 90 days in respect of export sales and 30 days in respect of domestic sales would be brought to the attention of our finance department as well as the sales and marketing department and therefrom, our sales and marketing department will liaise with the relevant customers to seek prompt settlement of the overdue balance. We evaluate problematic trade receivables on a case-by-case basis and trade receivables that are considered to be irrecoverable following such evaluation will be written off as bad debt. When assessing the recoverability of outstanding trade receivables our management will consider the transaction amount, payment history, creditworthiness of and our relationship with the relevant customers, whether there is an agreed schedule of payment and our prospects of receiving the outstanding amount. It is our policy not to supply our products to customers who has failed to settle payments within one year in previous occasions.

Please refer to the section headed "Financial Information — Discussion on Major Items of the Consolidated Statements of Financial Position — Trade receivables" of this prospectus for details of average trade receivables turnover days during the Track Record Period.

During the Track Record Period, we did not experience any bad and doubtful debts or disputes with our customers that would have had a material impact on our business, financial condition or results of operations.

Pricing

We generally agree with our export sales customers on the price of our furniture products in the purchase orders. We usually determine the price on market-oriented basis for our furniture products and by reference to the wholesale price of comparable products in the market and taking into our cost of production, the expected margin we will charge, the complexity of the product, the labour and technology involved, the volume of order, the credit period given, our relationship with the customer, the negotiation between our customers and us, the market conditions and (where applicable) the exchange rate fluctuation for the year.

In respect of export sales, prices are quoted in US$ on free on board basis, for delivery at the port in the PRC. In respect of domestic sales, prices are quoted as ex-factory price.

Product life cycle

The approximate product life cycle of each of our panel furniture, upholstered furniture and other furniture is approximately range from three to five years, one to three years and one to three years, respectively. The product life cycles for different products are estimated with reference to the past experience of our Directors and for indicative purpose only. Please refer to the section headed "Financial Information — Principal Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Price Range" for further details on the price range and average selling price of our products.

TAXATION

Our operations are subject to enterprise income tax, VAT and other taxes in the PRC. In May 2018, the VAT rate applicable to us had been reduced from 17% to 16%. Subsequently, the relevant VAT export refund rate had been adjusted from 15% to 16% in November 2018. Since then, the VAT rate applicable to us had been aligned with the relevant VAT export refund rate and no VAT cost had arisen from our export sales. In April 2019, both the applicable VAT rate and the relevant VAT export refund rated had been adjusted to 13%. For further details of the change in the relevant tax policy, please refer to the paragraphs headed "Appendix III — Regulatory Overview — Overview of PRC Law and Regulations — 10. Tax — 10.2 Value Added Tax" to this prospectus. As a result of the above change in the policy in connection with VAT rate and the relevant VAT export refund rate, we were able to benefit from a reduction in our cost of sales. Accordingly, our VAT cost arising from export sales had decreased from approximately RMB33.0 million in

FY2018 to nil in 6MFY2020. Please refer to the section headed "Financial Information — Principal Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income — Cost of sales" for further details.

SALES AND MARKETING

Our sales and marketing department is responsible for the sales and marketing of our furniture products and maintaining relationship with our customers. As at 30 June 2020, we had 23 employees in our sales and marketing department.

Our sales process for furniture products is closely linked to the product development process in collaboration with retail chains directly or through furniture traders. After going through the product development process as more particularly described in the paragraph headed "Research and Development" in this section, purchase orders may be placed with us by our customers. We maintain close working relationship with our customers on both product development and manufacturing levels.

We generally market our furniture products to our end customers through referrals by intermediates of our existing customers. To promote our furniture products, we generally post and send our business information such as information relating our production facilities, product catalogues, our size and strengths to potential customers. We will also arrange marketing function from time to time, as and when needed, in the PRC and the U.S. for our existing and/or potential customers to visit our manufacturing facilities in the PRC or warehouse in the U.S. to showcase our products.

We focus on prominent customers with market influence, significant business turnover and good reputation. We believe that our dealing with furniture traders as intermediary agents enables us to effectively expand our reach to a wide group of retailers and our geographic coverage, as furniture traders often act on behalf of multiple retailers worldwide. It is our core marketing strategy to leverage our reputation and close collaboration with prominent retailers directly or through furniture traders to expand our customer base for furniture and add key industry players to our portfolio, as well as enhance profitability.

Seasonality

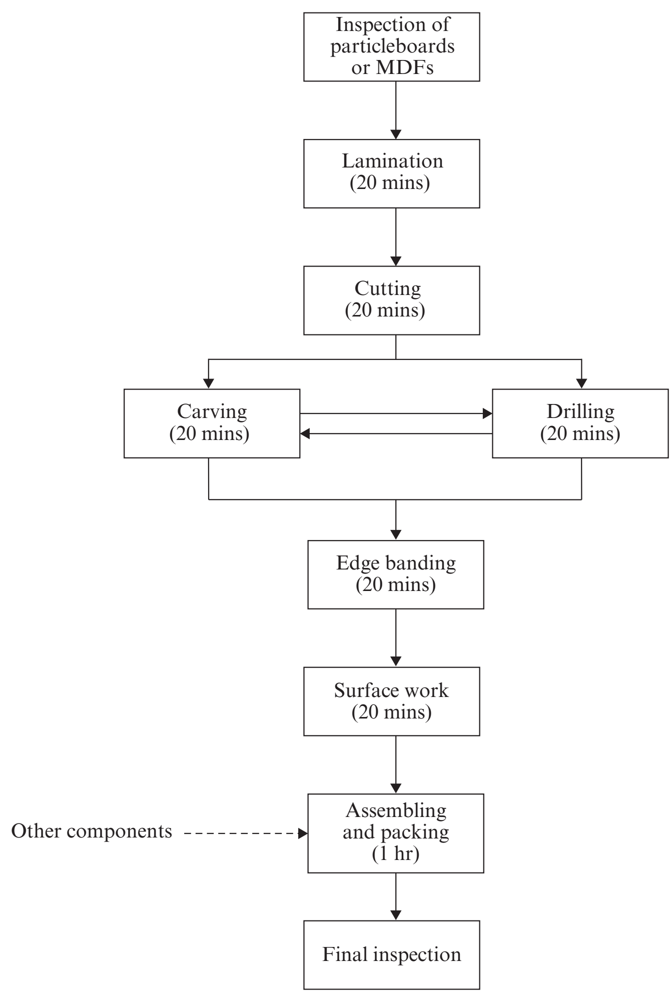
From our experience, we generally record higher revenue in the fourth quarter of each year as our customers will need to replenish their inventory prior to Christmas. According to the F&S Report, this seasonality trend is consistent with the industry norm.

MANUFACTURING PROCESS

Furniture

Our furniture products sold during the Track Record Period comprising principally our panel furniture products. Our panel furniture is mainly manufactured at our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory, while our upholstered furniture and other furniture are mainly manufactured at our Huisen Mingda Factory and Weiye Jiankang Factory.

While different products involve different designs, production material, component parts, technical specifications and production process, the following flowcharts illustrate the major steps in the production of our different panel furniture products:



The total production time varies among different panel furniture products and in general takes approximately three hours. The production lead time of the whole production process, which include production and confirmation of pre-production sample(s), procurement of raw materials from suppliers and production processes, is approximately 20 to 40 days.

Production materials inspection

Quality inspection is performed on production materials. In particular, particleboards and MDFs delivered to us from our suppliers will be inspected before commencement of the manufacturing process. For quality control procedures on our production materials, please refer to the paragraph headed "Quality Control — Production materials" in this section.

Lamination

Inspected boards are passed through a lamination machine which adheres laminate papers of various colours and patterns to the boards according to the product design.

Cutting, carving, drilling and edge banding

Laminated boards are cut by computerised cutting machines. Depending on the product design and requirements, we may perform further processing on the boards such as carving, drilling and edge banding using automated equipment. A high level of precision is essential to ensure that the final pieces fit together properly when assembled by the end user. Our computerised equipment enables us to cut and drill the boards to our desired dimensions and exacting standards with greater precision and lower wastage.

Surface work

Depending on the product design and requirements, our production staff may adhere handles and decorative items to the surface. The completed products are inspected by our quality control staff.

Assembling and packing

Furniture components are assembled by us at a separate assembly line after quality check. Panels which have passed quality inspection are then packed with the furniture components, such as furniture legs and nails, together with the assembling instructions for end users. Our quality control staff will inspect the packed goods to ensure that they conform to packing and labeling specifications. Packed goods will be stored at our warehouses pending delivery to customers.

Quality control inspection is performed throughout the manufacturing process. Please refer to the paragraph headed "Quality Control — Furniture" in this section for further details of our quality control procedures.

Major production materials

To achieve vertical integration, we manufacture particleboards, steel tubes, plastic tubes and plastic components principally for our internal production use. We manufacture particleboards at our Aigesen Factory. We manufacture our steel tubes at our Weiye Jiankang Factory, and plastic tubes and other plastic components at our Huisen Furniture Factory. Apart from manufacturing by ourselves, we also purchase particleboards, steel tubes and plastic components from external suppliers.

Particleboards production

We manufacture particleboards at our Aigesen Factory located in Nankang, Ganzhou, Jiangxi Province, the PRC since May 2017. Approximately 95.7%, 87.1%, 91.0% and 96.1% of the particleboards produced by Aigesen during each of FY2017, FY2018, FY2019 and 6MFY2020 were for our internal use. Prior to May 2017, we sourced some of our particleboards from Hengda Wood. During each of the FY2017, FY2018, FY2019 and 6MFY2020, approximately 12.8%, 19.2%, 21.2% and 24.6% of our total purchase of particleboards used in the production of our furniture had been manufactured by Hengda Wood and in-house by our Aigesen Factory.

Our particleboards are mainly made of wood residue and wood waste such as sawdust, wood shavings and wooden off-cuts which are sourced from our suppliers. The major steps involved in our manufacturing process of particleboards includes (a) dehydration of wood particles; (b) blending and forming of dried wood particles with adhesive to form a consistent paste and deposited in the form of a continuous mat in a machine; (c) pre-pressing and pressuring the sheets under high pressure and temperature to solidify the adhesive and bond the wood particles into a solid panel and, thereafter, cooling of the particleboards; and (d) the particleboard are trimmed and sanded for a refined surface. The finish goods will be inspected, packaged and sent for delivery. The production time of the whole production process from dehydration to packaging is approximately one hour.

Steel tubes production

Our steel tubes are manufactured by production process at our Weiye Jiankang Factory located in Longnan, Ganzhou, Jiangxi Province, the PRC. The total cost of the steel tubes manufactured by ourselves accounted for approximately 86.1%, 100.0%, 89.2% and 100.0% of the total cost of steel tubes manufactured or purchased by us in each of the FY2017, FY2018, FY2019 and 6MFY2020. During the Track Record Period, all of the steel tubes produced by our Weiye Jiankang Factory were for our internal use.

Steel strip is the major production material of steel tubes. The major steps involved in our manufacturing process of steel tubes includes (a) crimping of the steel strips into pipe blank with roller moulds of the welded pipe production machine. The production machine will heat up the pipes to a welding temperature with a high frequency electric current and finish welding under the pressure of the squeeze roller; (b) steel tubes are then cut into our desired lengths; (c) steel tubes are then stamped into our desired shapes or dimensions and punched; (d) certain steel tubes are sent to paint coating line for paint coating on the surface (if necessary); (e) the finished goods will be inspected and may be used as one of the production material for our panel furniture. The production lead time of the whole production process for steel tubes is approximately one day.

Plastic tubes and plastic components production

Our plastic tubes and plastic components are manufactured by production process at our Huisen Furniture Factory located in Longnan, Ganzhou, Jiangxi Province, the PRC. The total cost of the plastic tubes and plastic components manufactured by ourselves accounted for approximately 60.7%, 46.4%, 49.3% and 36.3% of the total cost of plastic tubes and plastic components manufactured or purchased by us in each of the FY2017, FY2018, FY2019 and 6MFY2020. During the Track Record Period, all of the plastic tubes and plastic components produced by our Huisen Furniture Factory were for our internal use.

High-density polyethylene ("**HDPE**") and polypropylene ("**PP**") are the major production materials for the production of plastic tubes and plastic components. The major steps involved in our manufacturing process of plastic tubes and plastic components includes (a) depending on the design and customers' specifications, HDPE or PP is mixed together with colour pellets in a vertical colour-mixer to make sure that the HDPE or PP will be dyed with the required/desirable colour; (b) depending on the size, shape and customers' specifications of the plastic tubes or plastic components, we may process the HDPE or PP either by our injection molding machine or blow-molding machine. We normally use our injection molding machines to produce smaller plastic parts, such as furniture legs and joints while we normally use our blow-molding machines to produce plastic tubes; (c) plastic tubes and components are then drilling of internal thread (if necessary); (d) the finished goods will be inspected and may be used as one of the production material for our panel furniture. The production lead time of the whole production process for plastic tubes and plastic components is approximately within one day.

MANUFACTURING FACILITIES

Huisen Furniture Factory

We manufacture some of our panel furniture at our Huisen Furniture Factory commencing from May 2007. We also manufacture plastic tubes and plastic components as production materials for our furniture products at Huisen Furniture Factory. Our Huisen Furniture Factory is located in Longnan, Ganzhou, Jiangxi Province, the PRC and is owned by Huisen Furniture, and has an aggregate site area of approximately 84,667.1 sq.m. with an aggregate gross floor area of approximately 62,832.1 sq.m..

Huiming Wood Factory

We manufacture some of our panel furniture at our Huiming Wood Factory commencing from October 2015. Our Huiming Wood Factory is located in Nankang, Ganzhou, Jiangxi Province, the PRC and is owned by Huiming Wood, and has an aggregate site area of approximately 40,413.8 sq.m. with an aggregate gross floor area of approximately 26,569.8 sq.m..

Huisen Mingda Factory

We manufacture some of our panel furniture at our Huisen Mingda Factory commencing from April 2016. We also manufacture our upholstered furniture between July 2017 to January 2019, sports and recreational equipment from September 2017 and outdoor furniture from February 2019 at our Huisen Mingda Factory. Our Huisen Mingda

Factory is located in Longnan, Ganzhou, Jiangxi Province, the PRC and is owned by Huisen Mingda, and has an aggregate site area of approximately 63,437.9 sq.m. with an aggregate gross floor area of approximately 29,681.8 sq.m..

Weiye Jiankang Factory

We manufacture steel tubes as production materials for our furniture products at Weiye Jiankang Factory commencing from March 2012. We also manufacture our outdoor furniture between July 2017 to January 2019 and upholstered furniture from February 2019 at our Weiye Jiankang Factory. Our Weiye Jiankang Factory is located in Longnan, Ganzhou, Jiangxi Province, the PRC and is owned by Weiye Jiankang, and has an aggregate site area of approximately 44,000.2 sq.m. with an aggregate gross floor area of approximately 22,971.5 sq.m..

Aigesen Factory

We manufacture our particleboards at our Aigesen Factory principally for internal production use commencing from May 2017. Our Aigesen Factory is located in Nankang, Ganzhou, Jiangxi Province, the PRC and is owned by Aigesen, which was established in February 2015, and has an aggregate site area of approximately 98,358.7 sq.m. with an aggregate gross floor area of approximately 58,415.5 sq.m..

Production capacity and utilisation rate

Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory

The principal product manufactured and sold by us during the Track Record Period was panel furniture products. We manufacture our panel furniture at our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory. Apart from the manufacture of panel furniture, our Huisen Mingda factory had also manufactured upholstered furniture between July 2017 to January 2019 and our Huisen Furniture Factory also manufacture plastic tubes and plastic components as production materials for our furniture products.

Due to the lack of a common bottleneck for our panel furniture products, we calculate the designed production capacity and utilisation of our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory based on its board-cutting capability, as we offers a very wide range of panel furniture products having different sizes, shapes and functions based on each of our customer's need and specific requirement, and it would not be meaningful to determine the designed production capacity based on the number of units of a particular model of panel furniture manufactured. Board-cutting is one of the key processes in our panel furniture production flow, given that it is necessary to cut the standard-size panel into number of smaller boards of appropriate sizes before they can be further processed and/or packaged. According to F&S, board-cutting capacity is an industry standard to measure the designed production capacity and the production volume of panel furniture manufacturers.

The following table sets out the designed production capacity, actual production volume and utilisation rate for the production of our panel furniture for the years/period indicated below:

	Designed production capacity *(cubic metres)*[(note)]	**Actual production volume** *(cubic metres)*	**Utilisation rate** *(%)*
FY2017			
— Huisen Furniture Factory	589,065	557,829	94.7
— Huiming Wood Factory	460,502	295,948	64.3
— Huisen Mingda Factory	280,893	126,944	45.2
Total	**1,330,460**	**980,721**	**73.7**
FY2018			
— Huisen Furniture Factory	638,761	555,179	86.9
— Huiming Wood Factory	469,955	420,500	89.5
— Huisen Mingda Factory	371,373	161,537	43.5
Total	**1,480,089**	**1,137,216**	**76.8**
FY2019			
— Huisen Furniture Factory	620,260	584,030	94.2
— Huiming Wood Factory	518,571	389,569	75.1
— Huisen Mingda Factory	419,314	266,847	63.6
Total	**1,558,145**	**1,240,446**	**79.6**
6MFY2020			
— Huisen Furniture Factory	311,548	201,454	64.7
— Huiming Wood Factory	270,089	182,657	67.6
— Huisen Mingda Factory	226,875	145,559	64.2
Total	**808,512**	**529,670**	**65.5**

Note: We calculated the designed production capacities and utilisation of our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory based on their board-cutting capability (one of the key processes in panel furniture production flow), determined on the basis of 22 hours a day, 330 days a year (in respect of FY2017, FY2018 and FY2019) or 165 days (in respect of 6MFY2020) of operation.

The fluctuation of the designed production capacity of our factories for panel furniture

During the Track Record Period, we recorded growth in terms of the overall designed production capacity of panel furniture products. Our overall designed production capacity of panel furniture had increased from 1,330,460 cubic metres to 1,558,145 cubic metres from FY2017 to FY2019 and further increase to 808,512 cubic metres (for a six-month period) in the 6MFY2020. The changes in the designed production capacity of our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory were mainly attributable to our purchases and use of new and/or additional production machineries and disposals of existing production machineries during the Track Record Period. Please refer to the paragraph headed "Production capacity enhancement and expansion projects" in this section for further details of the movement of designed production capacity of our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory during the Track Record Period.

The fluctuation of the actual production volume and utilisation rate of our factories for panel furniture

During the three years ended 31 December 2019, the overall actual production volume and utilisation rate of our factories for panel furniture remained stable and the fluctuation in the actual production volume and utilisation rate of the individual factory was resulted from the arrangement of production orders among the factories. Since the establishment and commencement of operation of our Huiming Wood Factory and Huisen Mingda Factory since October 2015 and April 2016, it is our strategy to gradually shift part of the production of our panel furniture products to Huiming Wood Factory and Huisen Mingda Factory in order to achieve a better balance in the utilisation level of our production facilities. Accordingly, Huisen Furniture Factory had recorded a slight decrease in its actual production volume in FY2018.

Besides, as we offer a wide range of furniture product mix, the types and models of products ordered by our customers change from time to time. During FY2019, we had received increased orders for special-shaped products (the "**Special-shaped Products**") and Metal Furniture Products. Only our Huisen Furniture Factory had the necessary machineries and equipment and the expertise to produce the Special-shaped Products, including machineries for cutting boards of various special shapes (e.g. rounded edge, triangular-shape and other irregular shapes) and edge banding of such special shaped boards. On the other hand, as our steel tubes were produced by Huisen Furniture, production orders of Metal Furniture Products would also be assigned at our Huisen Furniture Factory in order to minimise the costs arising from intra-group transactions. Furthermore, orders containing both the Special-shaped Products or the Metal Furniture Products and other panel furniture products would not be separately produced in different factories as it would increase the cost of production management. As a result, all the Special-shaped Products and Metal Furniture Products and the other panel furniture products which were included in the same order with the Special-shaped Products or the Metal Furniture Products were produced by Huisen Furniture Factory instead of Huiming Wood Factory and Huisen Mingda Factory, resulting in a relatively high utilisation rate of Huisen Furniture Factory in FY2019.

The decrease in the overall utilisation rate of our factories for panel furniture during 6MFY2020 was mainly due to (i) the fact that the first quarter in each year is the low season of our business; (ii) the suspension of our production facilities for 14 days in the 3MFY2020 as a result of the outbreak of the COVID-19 pandemic in the PRC; and (iii) the decrease in the orders received by us (in terms of transaction amounts) during the second quarter of FY2020 as our customers and/or their downstream customers were relatively conservative in placing orders given the outbreak of COVID-19 pandemic and the lockdown measures in the U.S.. The overall utilisation rate of our factories for panel furniture during the third quarter of FY2020 had increased to a similar level with that of FY2019.

The actual production volume and utilisation rate of our factories for panel furniture in the 6MFY2020 had recorded a decrease as compared to that of FY2019. Such decrease was mainly attributable to the fact that the first quarter in each year is the low season of our business and our production facilities had been suspended for 14 days in the 3MFY2020 as a result of the outbreak of the COVID-19 in the PRC.

Aigesen Factory

Our Aigesen Factory only commenced its commercial production in May 2017. Aigesen Factory had a designed production capacity of 16 mm particleboard of approximately 224,400 cubic metres, determined on the basis of 24 hours a day, 220 days in respect of period from the commencement of operation in May 2017 to 31 December 2017, approximately 336,600 cubic metres, determined on the basis of 24 hours a day, 330 days in respect of FY2018 and FY2019 and approximately 168,300 cubic metres, determined on the basis of 24 hours a day, 165 days in respect of 6MFY2020. Approximately 96.1% of the particleboard produced by Aigesen in 6MFY2020 were for our internal use.

The following table sets out the designed production capacity, actual production volume and utilisation rate for the production of our particleboards at our Aigesen Factory for the years/period indicated below:

	Designed production capacity *(cubic metres)*	**Actual production volume** *(cubic metres)*	**Utilisation rate** *(%)*
FY2017	224,400	139,278	62.1
FY2018	336,600	248,580	73.9
FY2019	336,600	258,405	76.8
6MFY2020	168,300	126,625	75.2

The slight decrease in the overall utilisation rate of our Aigesen Factory during 6MFY2020 was mainly due to the suspension of our Aigesen Factory for 21 days in the 3MFY2020 as a result of the Chinese New Year's holiday and the subsequent outbreak of the COVID-19 pandemic in the PRC. The overall utilisation rate of our Aigesen Factory during the second quarter of FY2020 had subsequently recovered to 88.4%.

Weiye Jiankang Factory

Our Weiye Jiankang Factory is mainly used for the manufacture of steel tubes as production materials for our furniture products and the manufacture of our upholstered furniture. All of the steel tubes produced at this factory during the Track Record Period were used for our internal use. We manufactured outdoor furniture in this factory between July 2017 to January 2019 and we only began to manufacture upholstered furniture in Weiye Jiankang Factory in February 2019 after the reallocation of the production line of upholstered furniture from Huisen Mingda Factory to Weiye Jiankang Factory. Please refer to the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (6) Weiye Jiankang" for further details on the background of the reallocation.

The following table sets out the designed production capacity, actual production volume and utilisation rate for the production of our steel tubes at Weiye Jiankang Factory for the years/period indicated below:

Steel tubes

	Designed production capacity(Note 1) *(pieces)*	**Actual production volume** *(pieces)*	**Utilisation rate** *(%)*
FY2017	25,349,500	12,734,947	50.2
FY2018	25,410,000	14,620,365	57.5
FY2019	21,879,000(Note 2)	14,153,669	64.7
6MFY2020	10,890,000	5,618,341	51.6(Note 3)

Notes:

1. We calculated the designed production capacities and utilisation rate of steel tubes of our Weiye Jiankang Factory based on the designed production capacity of the bottleneck of the production process of steel tubes of the relevant year/period, determined on the basis of 22 hours a day, 330 days a year (in respect of FY2017, FY2018 and FY2019) or 165 days (in respect of 6MFY2020) of operation.

2. The designed production capacity for FY2019 included the production capacity of two production machineries borrowed from an Independent Third Party for one month, pending purchase of the replacement for two production machineries for production of steel tubes that we disposed of in the end of FY2018 due to aging of these machineries.

3. The utilisation rate of steel tubes at our Weiye Jiankang Factory had recorded a decrease in the 6MFY2020. Such decrease was mainly attributable to the fact that the first quarter in each year is the low season of our business and our production facilities had been suspended for 21 days in the 3MFY2020 as a result of the Chinese New Year's holiday and the subsequent outbreak of the COVID-19 in the PRC.

The following table sets out the designed production capacity, sales volume and utilisation rate for the production of our upholstered furniture at Huisen Mingda Factory (from July 2017 to January 2019) and Weiye Jiankang Factory (from February 2019) for the years/period indicated below:

Upholstered furniture

	Designed production capacity(Note)	Sales volume	Utilisation rate
	(pieces)	*(pieces)*	*(%)*
FY2017	32,670	2,585	7.9
FY2018	65,340	30,446	46.6
FY2019	65,340	28,561	43.7
6MFY2020	32,670	15,918	48.7

Note: We calculated the designed production capacities and utilisation rate of upholstered furniture based on the designed production capacity of sewing of the fabric and leather components of our upholstered furniture, being the critical procedure and bottleneck of the production process of upholstered furniture, of the relevant year/period, determined on the basis of 16 hours a day, 330 days a year (in respect of FY2017, FY2018 and FY2019) or 165 days (in respect of 6MFY2020) of operation.

Production capacity enhancement and expansion projects

The following table sets out the movement of designed production capacity and details of production capacity enhancement and expansion projects of our production facilities for panel furniture in each of the FY2017, FY2018, FY2019 and 6MFY2020 respectively:

	Huisen Furniture Factory	Huiming Wood Factory	Huisen Mingda Factory	Total
FY2017				
Annualised designed production capacity based on machineries available as at 1 January 2017 (cubic metres) *(Note 1)*	622,286	453,750	210,670	1,286,706
Increase in designed production capacity in FY2017 (cubic metres) *(Note 2)*	37,542	6,752	70,223	114,517
Details of increase	• October — purchased and started using three computerized panel saws • November — purchased and started using one precision panel saw	• July — purchased and started using one numerical control panel saw	• May — purchased and started using three simple sliding saws and one sliding saw • June — purchased and started using two precision sliding table saws and one double shears • October — purchased and started using one computerised panel saw	
Decrease in designed production capacity in FY2017 (cubic metres) *(Note 2)*	70,763	—	—	70,763
Details of decrease	• June — disposed two computerised panel saws, one double shears and two precision sliding table • November — disposed one band saw	N/A	N/A	
Designed production capacity for FY2017 *(cubic metres)*	**589,065**	**460,502**	**280,893**	**1,330,460**

	Huisen Furniture Factory	Huiming Wood Factory	Huisen Mingda Factory	Total
FY2018				
Annualised designed production capacity based on machineries available as at 1 January 2018 *(cubic metres) (Note 1)*	644,973	469,955	372,723	**1,487,651**
Increase in designed production capacity in FY2018 *(cubic metres) (Note 2)*	2,701	—	—	**2,701**
Details of increase	• November — purchased and started using one precision sliding table saw and one double shears	N/A	N/A	
Decrease in designed production capacity *(cubic metres) (Note 2)*	8,913	—	1,350	**10,263**
Details of decrease	• April — disposed one precision saw • November — disposed one computerised panel saw	N/A	• November — disposed one double shears	
Designed production capacity for FY2018 *(cubic metres)*	**638,761**	**469,955**	**371,373**	**1,480,089**

	Huisen Furniture Factory	Huiming Wood Factory	Huisen Mingda Factory	Total
FY2019				
Annualised designed production capacity based on machineries available as at 1 January 2019 *(cubic metres) (Note 1)*	606,081	469,955	356,518	**1,432,554**
Increase in designed production capacity in FY2019 *(cubic metres) (Note 2)*	40,513	48,616	79,001	**168,130**
Details of increase	• February — purchased and started using one computerised panel saw	• January — purchased and started using one multi-chip saw and two sliding saws	• February — purchased and started using one computerised panel saw • April — purchased and started using one sliding saw • June — one computerised panel saw transferred from Huisen Furniture Factory	
Decrease in designed production capacity in FY2019 *(cubic metres) (Note 2)*	26,334	—	16,205	**42,539**
Details of decrease	• June — transferred one computerised panel saw to Huisen Mingda Factory	N/A	• January — disposed one double end saw	
Designed production capacity for FY2019 *(cubic metres)*	**620,260**	**518,571**	**419,314**	**1,558,145**

	Huisen Furniture Factory	Huiming Wood Factory	Huisen Mingda Factory	Total
6MFY2020				
Designed production capacity for six months based on machineries available as at 1 January 2020 *(cubic metres)* *(Note 1)*	303,040	259,286	226,875	789,201
Increase in designed production capacity in 6MFY2020 *(cubic metres)* *(Note 2)*	12,559	10,803	—	23,362
Details of increase	January — purchased and started using two sliding saws May — purchased and started using one numerical control panel saw	April — purchased and started using one electronic feed saw	N/A	N/A
Decrease in designed production capacity in 6MFY2020 *(cubic metres)* *(Note 2)*	4,051	—	—	4,051
Details of decrease	May — disposed one computerised panel saw	N/A	N/A	N/A
Designed production capacity for 6MFY2020 *(cubic metres)*	**311,548**	**270,089**	**226,875**	**808,512**

Notes:

1. The annualised designed production capacity was calculated based on machineries available as at the beginning of the year/period and may differ from the respective designed production capacity of the previous year/period for the reason that the increase and/or decrease in the production capacity resulted from the machineries acquired or disposed in previous year would be adopted on full-year or six-month (in respect of 6MFY2020) basis in the following year/period.

2. The increase/decrease in the designed production capacity for the relevant year/period was affected by many factors, including but not limited to, the designed production capacity of the relevant machinery purchased or disposed and the time of such purchase or disposal within the relevant year/period and during the relevant month.

3. We calculate the designed production capacity of our factories for the production of panel furniture based on board-cutting capability (one of the key process in the panel furniture's production flow).

Machinery and equipment

Our major machineries and equipment were generally sourced from manufacturers in the PRC, Germany and Italy and primarily comprise of approximately 200 machines as at 30 June 2020. Our major machineries mainly includes board cutting, material preparation and processing machineries and their useful lives are around 10 years old. We conduct regular cleaning to our machineries and equipment. Maintenance to our machineries and equipment will be conducted from time to time, as and when necessary. For the depreciation method of our machineries and equipment, please refer to the section headed "Appendix I — Accountants' Report — Note 4".

During the Track Record Period, we did not experience any insufficiency of machineries or equipment or malfunctioning of these machineries or equipment which would have had a material impact on our business, financial condition or results of operations.

PRODUCTION MATERIALS, SUPPLY CHAIN MANAGEMENT AND SUPPLIERS

Production materials

The principal production materials used by us for the production of our furniture products include particleboards and MDFs and other furniture components such as plastic tubes and plastic components. Particleboards and MDFs are engineered woods either manufactured by us or sourced in the PRC rather than trees or natural wood logs which may be subject to rules and regulations on forest conservation and export in the PRC and other countries in the world. On the other hand, the principal production materials for the production of our particleboards comprise wood residue and wood waste such as sawdust, wood shavings and wooden off-cuts and chemicals such as formaldehyde and urea for the production of adhesive. Furthermore, the principal production material(s) for the production of (i) steel tubes is steel strip; and (ii) plastic tubes and plastic components are HDPE and PP. Our Directors are not aware of any challenge from the relevant government authority in the PRC regarding the legality of the panel boards we purchased from our suppliers.

Particleboards and MDFs (as principal materials for the production of our panel furniture) accounted for approximately 79.0%, 79.9%, 78.0% and 77.1% of the cost of materials consumed during each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Please refer to the section headed "Financial Information — Principal Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income — Cost of sales" of this prospectus for further details of our cost of materials consumed during the Track Record Period.

Supply chain management

Our procurement department is responsible for the purchase of production materials, packaging materials and furniture components. As at 30 June 2020, we had 24 employees in our procurement department.

In order to enhance our quality control, provide a reliable supply of our principal production material and to minimise production costs, prior to the commencement of commercial production at our Aigesen Factory in May 2017, approximately 1.8% of the particleboards used in the production of our panel furniture in FY2017 were sourced from Hengda Wood. MDFs are mainly purchased from other suppliers located in Jiangxi and Anhui Provinces.

We also manufacture steel tubes at our Weiye Jiankang Factory and plastic tubes and plastic components are produced at our Huisen Furniture Factory. Apart from manufacturing by ourselves, we also purchase particleboards, steel tubes and plastic components from external suppliers.

Suppliers

We maintained an approved list of suppliers, all of which are located in the PRC. We select our suppliers based principally on several criteria, namely on pricing, product quality and whether such suppliers are able to deliver the production materials on time.

The purchase price is generally agreed between us and our suppliers with reference to the then market price of the relevant production materials. We have several suppliers identified and pre-approved by us for the supply for our principal production materials and we normally compare the price quotation of two to three suppliers for a particular type of production material. We will also conduct reviews of our suppliers' business licences and other licences or approvals associated with their operations and perform site visit of our major suppliers' production facilities before we place orders with such suppliers. As we will review our approved lists of suppliers every three months, any pre-approved suppliers that do not fulfil our criteria will be removed from our pre-approved list of suppliers. In order to avoid dependence on any single supplier, we generally maintain more than one supplier for our major raw materials.

Top five suppliers

Our purchases from our five largest suppliers, which are all located in the PRC, accounted for approximately 14.1%, 15.3%, 16.2% and 20.0% of our total purchase for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively, and our purchases from our largest supplier accounted for approximately 5.9%, 4.8%, 4.3% and 5.5% of our total purchase for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively.

FY2017

Supplier	Supplier profile	Products purchased	Length of relationship with our Group up to the Latest Practicable Date *(approximate)*	Credit terms	Payment method	Total purchase *(RMB'000)*	Percentage of our total purchase
Zhongyuan Forestry *(Note)*	Particleboards manufacturer based in Jiangxi Province	Particleboards	4.0 years	One month	By bank transfer	113,443	5.9%
CCIT Int'l Group Co., Limited (深圳前海東方旭昇供應鏈有限公司)	Log and particleboards importing and sales company based in Guangdong Province	Particleboards	4.0 months	One month	By bank transfer	45,225	2.3%
Jiangxi Senjin Industrial Company Limited* (江西森錦實業有限公司)	Imported pine wood and particleboards sales company based in Jiangxi Province	Particleboards	1.0 year	One month	By bank transfer	38,369	2.0%
Ganzhou Longchang Trading Company Limited* (贛州市龍昌貿易有限公司)	Furniture, paint and hardware sales company based in Jiangxi Province	Paint	8.0 years	One month	By bank transfer	38,245	2.0%
Linyi Lanshan District Guanshan Plywood Factory* (臨沂市蘭山區冠杉膠合板廠)	Plywoods manufacturer based in Shandong Province	Particleboards	1.0 year	One month	By bank transfer	37,458	1.9%
					Total	**272,740**	**14.1%**

FY2018

Supplier	Supplier profile	Products purchased	Length of relationship with our Group up to the Latest Practicable Date *(approximate)*	Credit terms	Payment method	Total purchase *(RMB'000)*	Percentage of our total purchase
Zhongyuan Forestry *(Note)*	Particleboards manufacturer based in Jiangxi Province	Particleboards	4.0 years	One month	By bank transfer	99,298	4.8%
Linying County Yuheng Wood Company Limited* (臨潁縣豫恒木業有限公司)	Particleboards manufacturer based in Henan Province	Particleboards	4.0 years	One month	By bank transfer	61,469	2.9%
Linying County Chuangda Wood Company Limited* (臨潁縣闖達木業有限公司)	Particleboards manufacturer based in Henan Province	Particleboards	4.0 years	One month	By bank transfer	60,749	2.9%
Linying County Miaolin Wood Company Limited* (臨潁縣淼林木業有限公司)	Particleboards manufacturer based in Henan Province	Particleboards	3.0 years	One month	By bank transfer	49,631	2.4%
Daya Wood (Zhaoqing) Company Limited* (大亞木業(肇慶)有限公司)	Particleboards manufacturer based in Guangdong	Particleboards and MDFs	5.0 years	One month	By bank transfer	48,853	2.3%
					Total	**320,000**	**15.3%**

FY2019

Supplier	Supplier profile	Products purchased	Length of relationship with our Group up to the Latest Practicable Date *(approximate)*	Credit terms	Payment method	Total purchase *(RMB'000)*	Percentage of our total purchase
Zhongyuan Forestry *(Note)*	Particleboards manufacturer based in Jiangxi Province	Particleboards	4.0 years	One month	By bank transfer	102,134	4.3%
Linying County Chuangda Wood Company Limited* (臨潁縣闖達木業有限公司)	Particleboards manufacturer based in Henan Province	Particleboards	4.0 years	One month	By bank transfer	80,068	3.4%
Linying County Yuheng Wood Company Limited* (臨潁縣豫恒木業有限公司)	Particleboards manufacturer based in Henan Province	Particleboards	4.0 years	One month	By bank transfer	74,117	3.1%
Linying County Miaolin Wood Company Limited* (臨潁縣淼林木業有限公司)	Particleboards manufacturer based in Henan Province	Particleboards	3.0 years	One month	By bank transfer	66,369	2.8%
Dongming Haorui Wood Company Limited* (東明浩瑞木業有限公司)	Particleboards manufacturer based in Shandong Province	Particleboards	4.0 years	One month	By bank transfer	62,011	2.6%
					Total	**384,699**	**16.2%**

6MFY2020

Supplier	Supplier profile	Products purchased	Length of relationship with our Group up to the Latest Practicable Date *(approximate)*	Credit terms	Payment method	Total purchase *(RMB'000)*	Percentage of our total purchase
Zhongyuan Forestry *(Note)*	Particleboards manufacturer based in Jiangxi Province	Particleboards	4.0 years	One month	By bank transfer	57,213	5.5%
Linying County Yuheng Wood Company Limited* (臨潁縣豫恒木業有限公司)	Particleboards manufacturer based in Henan Province	Particleboards	4.0 years	One month	By bank transfer	41,751	4.0%
Linying County Chuangda Wood Company Limited* (臨潁縣闖達木業有限公司)	Particleboards manufacturer based in Henan Province	Particleboards	4.0 years	One month	By bank transfer	39,445	3.8%
Linying County Miaolin Wood Company Limited* (臨潁縣淼林木業有限公司)	Particleboards manufacturer based in Henan Province	Particleboards	3.0 years	One month	By bank transfer	36,696	3.5%
Xuzhou Tianyuan Wood Company Limited* (徐州天源木業有限公司)	Particleboards manufacturer based in Shandong Province	Particleboards	5.0 years	One month	By bank transfer	32,912	3.2%
					Total	**208,017**	**20.0%**

Note:

Zhongyuan Forestry was held as to 70% by Mr. Wu Runlu, our executive Director and general manager of our Group. On 22 January 2018, Mr. Wu Runlu disposed of his entire interests in Zhongyuan Forestry to an Independent Third Party and ceased to have any interests in Zhongyuan Forestry.

Save as disclosed above, during the Track Record Period, all of our five largest suppliers were Independent Third Parties. To the best knowledge and belief of our Directors, none of our Directors, their close associates or our Shareholders who owned more than 5% of our issued Shares as at the Latest Practicable Date had any interest in any of our five largest suppliers during the Track Record Period.

We do not enter into contracts with our suppliers for the purchase of production materials. We place orders with our suppliers each time when we make procurement of raw materials. Key terms of the purchase orders include the exact quantity, price, size specifications, payment, packaging and delivery time.

Production materials can normally be delivered to us within 30 days from the date of order. We procure raw materials based on our production plans and we generally maintain a sufficient level of inventory for general production materials, rather than procuring raw materials upon receipt of sales order from customers. We believe this model allows us to control cost, respond to market demand quickly and manage our inventory more efficiently.

We were generally granted credit periods of up to one month after receipt for our principal production materials (including particleboards and MDFs). During the Track Record Period, all of our production materials were purchased in the PRC and settled in RMB.

During the Track Record Period, we did not experience any delay or shortage of supply, price fluctuation on products sourced or product delivery issues which would have had a material impact on our business, financial condition or results of operations. Our Directors consider that alternative suppliers for our production materials are readily available in the market with comparable quality and prices and we do not foresee significant difficulty to source production material in the foreseeable future.

Please refer to the section headed "Financial Information — Principal Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income — Cost of sales — Historical sensitivity analysis" for further details on the sensitivity analysis in respect of the impact of hypothetical fluctuations in our cost of sales to our profit before income tax.

SUBCONTRACTING

During the Track Record Period, we had outsourced the manufacturing work for some of our panel furniture products to external furniture manufacturers in the PRC. We consider this allow us to accommodate urgent bulk orders from our customers under short-term insufficient production capacity. Such subcontractors were responsible for the entire manufacturing process of the panel furniture products based on the design and specifications provided by us, and using the panel boards and other parts and components provided by us so as to ensure the quality of our products. We typically select such subcontractors based on various criteria including their ability and performance in previous cooperation with us, their qualifications, the time require in completing the orders and the price. In general, our customer's consent for our subcontracting arrangement is not required.

We have engaged two subcontractors during the Track Record Period. We have maintained more than seven years of business relationship with these two subcontractors. To the best knowledge of our Directors and after making reasonable enquiries, our Directors confirm that each of the subcontractors is an Independent Third Party. We place orders with our subcontractors on a project-by-project basis. A summary of the typical terms of such orders are set forth below:

Scope of works	The detailed scope of each order such as type of panel furniture, size specifications, quantity and quality requirements are set out in each order.
Subcontracting fees	Determined based on the actual quantity of panel furniture products manufactured.
Duration	Delivery time shall be specified in each order.
Responsibilities of subcontractors	The subcontractors are required to manufacture the panel furniture products based on the sample and design provided by us.
Payment and credit terms	We are generally required to settle the payment monthly.
Quality assurance	The panel furniture shall pass the quality inspection by our quality control department.

Payments to our subcontractors for the FY2017, FY2018, FY2019 and 6MFY2020 amounted to approximately RMB31.3 million, RMB19.7 million, RMB15.1 million and RMB5.7 million, respectively, representing approximately 1.4%, 0.8%, 0.5% and 0.4% of our cost of sales, respectively.

QUALITY CONTROL

We maintain and perform comprehensive quality control measures throughout our integrated production model, including screening of suppliers, conducting quality checks for raw material and work-in-progress in order to identify defects at early stages of production and performing inspection procedures for final products, furniture components, packaging, inventory and loading of goods. Our quality benchmarks are formulated with reference to our customer standards and specifications, depending on the product.

In recognition of our efforts on maintaining international standards of quality control and management, Huisen Furniture's quality management system has been accredited with ISO9001:2015/GB/T19001–2016 in respect of production of K/D furniture since October 2009, and its environmental management system has been accredited with ISO14001:2015 and GB/T 24001–2016 in production of K/D furniture and related management activities since February 2017.

Some of our customers who are overseas retail chains and furniture traders targeting overseas market would inspect our production management system at our Huisen Furniture Factory, Huiming Wood Factory, Huisen Mingda Factory and Weiye Jiankang Factory on an annual basis through their representatives and agents of ultimate customers. Our Huisen Furniture Factory, Huiming Wood Factory, Huisen Mingda Factory and Weiye Jiankang Factory passed the approval procedures in order to qualify as approved suppliers of overseas retail chains. Having passed the said stringent approval and annual review procedures to become their approved suppliers, we can enjoy strong recognition as to our ability to offer quality products, which can in turn improve our corporate image and reputation and enhance potential customers' confidence in us.

Apart from on-site inspection of our factory by our customers, we are also required to send our product samples to our customers and their approved laboratory for testing. The approval procedures normally take approximately one month. During the Track Record Period, to the best of our Directors' knowledge and belief, we were the approved suppliers of 54 panel furniture customers.

Our production management system is subject to annual review by some of our export customers through their professional agents. Such annual review include examination of our performance in different aspects, such as physical, procedural and information technology security, quality control, product testing, environment and productivity assessments, inventory control, human rights and social accountability.

Apart from annual inspection, some of our export sales customers also have quality control personnel stationed at our production facilities to perform on-site quality inspection during various stages in the manufacturing process for their ordered products at such factories through their on-site quality inspection team. Normally, these quality control personnel will station at our production facilities when we are manufacturing furniture products for them. During their station at our factories, these quality control personnel are involved in certain key production processes and work closely with our staff. During the Track Record Period, two of our customers sent their quality control personnel to station at our production facilities. While such representatives from our customers will assist us in inspecting and monitoring our manufacturing processes through interactive communication with our staff, we maintain independent quality control procedures through our own quality control department.

Furniture

As at 30 June 2020, we had 68 employees in our quality control department to oversee the quality control of our furniture products production. The quality control procedures undertaken by us for our furniture products are as follows:

Production materials

Prior to finalising our purchase orders in respect of new material or new suppliers, we may obtain samples from our suppliers. Our quality control department is responsible for inspecting and checking the quality and quantity of materials delivered to our factory, including panel board and furniture components such as plastic and metal components. We conduct physical inspection on batch basis for any physical damage of the materials. We also perform physical testings on certain production materials using computerised equipment to ensure that they meet the agreed specifications and our quality standards. For example, particleboards and MDFs are tested to ensure that they conform to customers' specifications. Defective production materials would be returned to suppliers.

Work in progress

Quality inspections are conducted at each stage of the production process. Our quality control department performs visual inspection of the first product for each batch during the manufacturing process. Defective work in progress may be discarded or reprocessed depending on the type and severity of the defect.

Final products

Our quality control department conducts visual inspection of the first product for each batch. We also maintain inspection procedures for packed goods and loading of goods to ensure that they conform to packing, labeling and loading requirements. Defective products may be discarded or reprocessed.

We do not offer product warranty for products manufactured by us. We only accept product return from our customers for defective products. During the Track Record Period, we did not experience any material quality defects to our products, nor did we experience any product returns or recall incidents. Details of defective products will be recorded by us. During the Track Record Period, the defective rates of the furniture products we produced were approximately 1.0%.

In respect of any complaints which may be brought by any of our customers, we have adopted a complaints handling policy whereby the following procedures will be adopted in handling a complaint:

- Regarding any missing parts or accessories of our products, we will provide the additional accessories to our customers on free-of-charge basis as requested; and

- Regarding any defect in our products, our sales and marketing department, R&D department and production and manufacturing department will be responsible for handling the complaint with our customers and to make improvements on future products.

During the Track Record Period and up to the Latest Practicable Date, we had only received customer complaints and feedback in respect of missing parts or accessories of our products from time to time in our ordinary course of business which do not have a material adverse effect on our business and operations.

Panel boards

Panel boards, such as particleboards and MDFs, are our major production materials for the production of our furniture products. Particleboards and MDFs accounted for approximately 79.0%, 79.9%, 78.0% and 77.1% of our total cost of materials consumed during each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively.

Approximately 11.0%, 19.2%, 21.2% and 24.6% of our total purchase of particleboard were supplied to us from Aigesen during each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Aigesen has been certified as CARB certified manufacturer since 2017, meaning that our production facilities for our particleboards are capable of producing particleboards which are compliant with the formaldehyde-emission standards under Californian law (which are also applied as the federal formaldehyde emission standards for composite wood products in the U.S.). In view of the relevant formaldehyde-emission requirements, we request our suppliers of particleboards and MDFs to provide their CARB certification in relation to our production of furniture sold to the U.S.. Please refer to the paragraph headed "Production Materials, Supply Chain Management and Suppliers — Suppliers" in this section for details on our selection of suppliers.

Ongoing Compliances with CARB Accreditation

Different customers may have different requirements on our products. Some of our customers do require our products to comply with CARB standards. CARB is a certification system which aims at reducing the formaldehyde emissions from composite wood products. To comply with the requirements and standards under the CARB accreditation, we are required to ensure that the formaldehyde emission of the particleboard and MDF that we use for our production is within the prescribed limit. In order to ensure the on-going compliance of such standards, we have implemented the following measures:

— requiring our suppliers to provide transaction documents bearing clear indication of CARB accreditation for the materials supplied for the manufacturing of CARB furniture;

— monitoring the compliances of CARB requirements by checking suppliers' accreditations and conducting site visits at the suppliers' factories in the procurement process by our procurement staff with relevant experience and requesting our suppliers to send samples to laboratory for testing; and

— being reviewed regularly by professional certification bodies in respect of CARB accreditation at our production facilities and procurement procedures to ensure our on-going compliances with CARB requirements.

Formaldehyde emission

In the absence of a unified international standard governing the formaldehyde emission requirements of panel furniture, some of our customers require our products to comply with certain internationally recognised formaldehyde emission standards whether as statutory requirements or as general safety guidance, including the formaldehyde emission limits under the CARB regulation. CARB adopts a strict standard on formaldehyde emission and is widely accepted by our customers in the U.S. as a formaldehyde emission standard for panel furniture. While our furniture products for export are primarily sold on free-on-board (at PRC ports) basis and therefore our customers are generally responsible for the compliance with the applicable import and other local product safety and quality requirements of the relevant overseas markets, including any local applicable chemical emission standards as may be applicable for furniture products. During the Track Record Period and up to the Latest Practicable Date, so far as our Directors are aware of, our products had complied with our customers' specifications and requirements in all material respects, and we are not aware of any non-compliance of our products, whether in terms of product safety and quality or chemical emission requirements or otherwise, under any such overseas laws and regulations in any material respects.

Formaldehyde-emission standards under CARB regulation

We set out below a summary of the formaldehyde limit for different types of composite wood under the CARB regulation:

Phase 2 formaldehyde emission standards (parts per million, ppm)

Hardwood plywood (with veneer core or composite core)	Particleboard	MDF	Thin MDP (with maximum of 8 mm)
0.05 ppm	0.09 ppm	0.11 ppm	0.13 ppm

So far as our Directors are aware of, not all countries to which our furniture products were exported have their own set of laws and/or regulations to govern formaldehyde emission limits, or otherwise have their own non-statutory standards or guidelines relating to the formaldehyde emission limits of our furniture products.

Except for the formaldehyde that is applied for the production of our particleboards, we are not aware that any toxic substances are produced or generated during our manufacturing processes. In accordance with the requirements set by our customers, our products are also subject to third party testing by accredited third-party testing laboratories in relation to, among others, product safety, use of toxic and/or hazardous substances and flammability before delivery to our customers.

Please refer to the section headed "Appendix III — Regulatory Overview — Overview of U.S. Law and Regulations — (2) Regulations on formaldehyde emission" for further details on information regarding the U.S. laws and regulations in relation to formaldehyde emission.

INVENTORY CONTROL

Our production material, work-in-progress and finished goods of furniture products are stored in the warehouses in Huisen Furniture Factory, Huiming Wood Factory, Huisen Mingda Factory and Weiye Jiankang Factory. As at 30 June 2020, we had assigned 79 employees to inventory management and logistics department.

As at 30 June 2020, our inventory level, including production materials, work-in-progress and finished goods amounted to approximately RMB142.1 million. Our average inventory turnover day for each of the FY2017, FY2018, FY2019 and 6MFY2020 was 40 days, 37 days, 26 days and 23 days, respectively.

As all of our furniture products produced during the Track Record Period were made to order, we maintain relatively low inventory level of finished products. Such inventory maintained were those pending for delivery to our customers. Based on our customers' orders, we would devise and circulate a production materials requirement table (which would include production materials requirement for prototype) to our production and manufacturing, procurement, inventory and logistics and finance department. After comparing the prices of at least two suppliers, our procurement department will purchase the requisite production materials.

We have established policies with regard to inventory management. Production materials, work-in-progress and finished goods being received by our warehouse have to be documented and verified by responsible warehouse staff against the purchase order. After verification, production materials, work-in-progress or finished goods are to be properly packed, labeled and then stored in the designated area. It is necessary to keep our materials and products in a dry and clean environment. For warehouse employees delivering goods or materials from the warehouse, it is necessary to verify if proper approvals have been obtained.

No write-down of inventories was made for each of the FY2017, FY2018, FY2019 and 6MFY2020.

RESEARCH AND DEVELOPMENT

Our R&D department is responsible for our R&D function. As at 30 June 2020, our R&D department comprised of 28 employees, with an average of three years of relevant experience in the furniture industry. We also have a long term collaboration with an external design house in the U.S. which has relevant experience in the U.S. furniture design market, which keeps us abreast of the changing U.S. furniture market demand and provide us with conceptual designs for potential new products for the U.S. market.

The table below sets forth the brief particulars of the design contract entered between us and the design house:

Scope of services provided by the design house	The design house agreed to provide services to us, among others, relating to concept and design development, production assistance and prototype evaluation and review and research of existing and future product offer for the U.S market from time to time
Term	For a term of 14 years commencing from 15 September 2018
Intellectual property	We shall be the owner of all the intellectual property rights arising from the performance of the design contract, including all the copyrights, trademarks and patents
Service fee	We will pay a service fee of US$2,000 plus disbursement each month to the design house for its product design and development services rendered under the design contract

During each of the FY2017, FY2018, FY2019 and 6MFY2020, the aggregate service fees paid by us to the design house amounted to approximately RMB0.8 million, RMB1.3 million, RMB1.8 million and RMB0.8 million, respectively.

We believe that our expertise and technical knowledge enables us to apply cost-effective manufacturing techniques in production processes and offer practical advice to customers in terms of material selection and technical specifications to optimise product features and lower production cost.

Our vertically integrated business model allows us to combine our in-house product design and development expertise with our integrated manufacturing platform. Our product design and development expertise in furniture products enables us to translate complex conceptual designs into final products conforming to the requirements of our customers. Our designers may also design, develop and manufacture furniture products based on our customers' requests as to their appearances and functionalities. Our product design and development expertise are within our R&D department.

The main responsibilities of our R&D department include:

(i) design and develop new products;

(ii) create three-dimensional computer drawings based on photographs or two-dimensional conceptual drawing of furniture provided by our customers, offer technical advice to optimise product features and functionality and create prototypes for new products through close collaboration with our customers;

(iii) offer product design and development services to our customers;

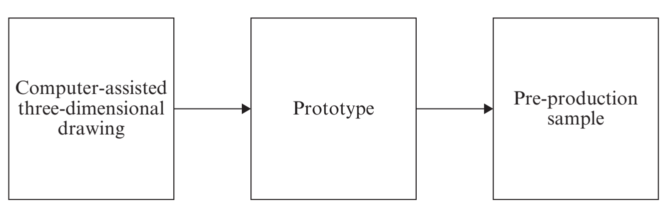
(iv) provide assistance to our production and manufacturing department to resolve any technical issues raised during the production process and to modify the technical specification of the product if necessary; and

(v) handle the design of the packaging materials for furniture products so that the furniture can be easily taken away and/or transported from the point of sales by consumers.

During the design stage of a product, we will ensure that the product is designed in a way that can be manufactured, packaged and sold to consumers in the form of separate components without jeopardising the appearance, functionality and product safety of the furniture, and can be easily and safely assembled by the consumers themselves with simple instructions and will take into account the product quality and safety requirements so as to ensure that the product has been designed in a way that is safe for its intended use and reasonably durable. Our product design and development expertise is dedicated to exploring technical advancements to improve product quality, functionality and reduce production cost. We will choose proper production materials that comply with environmental standards and to reduce the amount of production material used and reduce wastage in our manufacturing process through collaboration with our production and manufacturing and quality control departments.

To further expand our R&D capabilities, we intend to establish a R&D centre in Dongguan and to cooperate with external research institution, university and vocational college for the R&D of formaldehyde emission free panel boards, functional and smart furniture and panel furniture components and fittings. Please refer to the section headed "Business Strategies — Continue to strength our product design, research and development capabilities" in this section for details of our strategy to strengthen our R&D capabilities.

The chart below sets forth a prototypical product design and development cycle for a new model of furniture products developed by us. We require approximately 25 to 45 days for developing a new model.



We keep ourselves up to date with market trends through proactively seeking customers' feedback and extensive research through industry reports and the internet. We have also commissioned an external market research institution in the U.S. to understand the U.S. furniture market demand. Our market awareness and experience are particularly useful for our product development. During each of the FY2017, FY2018, FY2019 and 6MFY2020, the aggregate service fees paid by us to the market research institution in respect of the sales analysis of Walmart and overall market trend in the U.S furniture industry amounted to approximately RMB0.5 million, RMB2.8 million, RMB4.4 million and RMB2.0 million, respectively.

We work closely with our customers throughout the product design and development process to fine tune the design, material and technical specifications in order to optimise product features and functionality, while controlling cost. We subsequently design and produce the prototype for our customers. Based on our customers' feedback, we may prepare further samples or pre-production samples for our customers' approval, and then proceed to the production phase if our fee quotation is agreed and production orders are placed with us by our customer. Based on our experience, the success rates of our prototype during the Track Record Period is approximately 92.7%. Under the PRC laws, we own the intellectual property in respect of the prototype designed by us. Prior to mass production of a new product, our R&D department will confirm with our production and manufacturing department the manufacturing plan and technical specifications to ensure the product conforms with the design and standard of our customers and to maintain consistent product quality.

While we generally bear all the costs relating to product design and development, such costs are normally factored in the price of the product. We believe that our continued effort in product design and development will enable us to maintain sustainable growth and will help to improve our profit margins.

Our R&D expenses comprised of, among others, the staff costs of our product design and development department, which had been included as part of our administrative expenses. During each of the FY2017, FY2018, FY2019 and 6MFY2020, our staff costs for R&D amounted to approximately RMB1.7 million, RMB3.2 million, RMB2.9 million and RMB1.3 million, respectively.

We have been monitoring whether there was any complaint on our products in relation to potential infringement of third-party's intellectual property rights and we have not received any such material complaints or claims during the Track Record Period and up to the Latest Practicable Date. While our Directors consider that our risk in facing claims in relation to infringement of third-party's intellectual property rights is not significant given the fast-moving nature and relatively lower price of panel furniture products, we have formally codified and adopted the following measures in our Board meeting held on 2 December 2020 to enhance our internal control over our risk on infringement of third party's intellectual property rights and to protect our intellectual property rights:

(1) our sales department will communicate closely with our customers on any complaints or negative feedbacks in relation to the potential infringement of third-party intellectual property rights and will report to our executive Directors on an on-going basis;

(2) for any new in-house design created by us, our R&D department will conduct and request the external design house in the U.S. to conduct search on the database of the National Intellectual Property Administration Department of the PRC (國家知識產權局) and/or the United States Patent and Trademark Office to check if the relevant product will infringe any third party's registered patent before the mass production of a new product;

(3) in case if our customers provide any design to us, our R&D department will first conduct search on the database of the National Intellectual Property Administration Department of the PRC (國家知識產權局) and/or the United States Patent and Trademark Office to check if the relevant product will infringe any third party's registered patent;

(4) for other jurisdictions other than the U.S. and the PRC where we export our products to, apart from the measure in paragraph (1) above, our R&D department will conduct search on the relevant search system on the intellectual property rights website run by the competent government authority (if available) on a sampling basis from time to time to check if the relevant product will infringe any third party's registered intellectual property rights;

(5) with respect to our collaboration with an external design house in the U.S., we will be the owner of all the intellectual property rights arising from the performance of the design contract, including all the copyrights, trademarks and patents. Under the design contract, the design house is prohibited from developing any designs for other parties which are similar to the designs provided to our Group;

(6) our R&D staff and key staff have entered into confidentiality agreements with us for preserving confidentiality of the know-how, design and/or specifications in connection with the products of our Group and any other trade secrets of our Group;

(7) our subcontractors have entered into confidentiality agreements with us for preserving confidentiality of the know-how, design and/or specifications in connection with the products of our Group;

(8) we have established a patent application committee mainly responsible for assessing and approving whether any product features and/or functionality for any new in-house design created by us are valuable for patent registration. As our products are fast-moving in nature and of low value, we intend to only apply for patent for product features and/or functionality which are special and/or out breaking. We will also take necessary actions to maintain the validity of our patent registration of these products; and

(9) we will conduct search on the relevant search system on the intellectual property rights website run by the competent government authority (if available) on a sampling basis from time to time to check if there is possible patent infringement of our products, and, if identified, we will seek professional legal advice on the possibility of initiating relevant legal action.

The internal control measure under sub-paragraphs (1), (5) to (7) above have been an ongoing measure taken by us prior to our Listing application. In the course of preparation for the Listing, we have been continuously improving the internal control system and have implemented the internal control measures under sub-paragraphs (2) to (4), and (8) to (9) above.

AWARDS AND RECOGNITION

We differentiate ourselves from our competitors through our environmental friendly product and the quality improvement of our products. Up to the Latest Practicable Date, we had been granted the following major awards and accreditations:

Date of issue	Awards/certificates	Issuing authority	Expiry date
N/A	2015 Home Management "Innovation" Award Winner	Walmart	N/A
11 February 2020	Environmental Management System Certificate for ISO14001:2015/GB/T 24001-2016 (環境管理體系認證) in respect of production of K/D furniture and related management activities (Huisen Furniture) *(Note 1)*	China Quality Certification Centre *(Note 3)*	15 February 2023
6 September 2020	CARB certified manufacturer (Aigesen)	ICTT Corporation	5 September 2021
N/A	Supplier of the Year 2017	Walmart	N/A
1 June 2018	Quality Management System Certificate for ISO9001:2015/GB/T 19001-2016 (質量管理體系認證) in respect of production of K/D furniture (Huisen Furniture) (*Note 2*)	China Quality Certification Centre *(Note 3)*	26 July 2021

Notes:

1. Huisen Furniture has been accredited with this certification since 16 February 2017.

2. Huisen Furniture has been accredited with this certification since 26 October 2009.

3. China Quality Certification Centre (中國質量認證中心), which is a professional certification body under China Certification & Inspection Group (CCIC) (中國檢驗認證集團) approved by General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) and Certification and Accreditation Administration of the PRC (中國國家認證認可監督管理委員會).

MARKET AND COMPETITION

Notwithstanding our competitive strengths as set out in the paragraph headed "Competitive Strengths" in this section, we operate in a competitive environment as referred to in the F&S Report:

Approximate market size of PRC panel furniture export market in terms of estimated trade value ("**Industry Export Revenue**") in 2019	RMB81.7 billion
Approximate market share of the top five market players based on the Industry Export Revenue in 2019	5.73%
Approximate market share of our Group based on our export revenue for FY2019	3.92%

According to the F&S Report, there were approximately 2,000 panel furniture exporters in the PRC in 2019. The industry is also highly fragmented, with the top five market players accounting for only approximately 5.73% of the total market share based on the Industry Export Revenue in 2019. We compete with our rivals generally in terms of our proven track record, vertical integration of manufacturing operation, our product design and development capabilities, product variety, diversified sales channels, production capacity, product quality and ability to deliver quality products in compliance with stringent international standards, price and experienced management team with in-depth knowledge. If we lose out our competitive strengths or if the competition in the market intensifies, our revenue and profitability may be materially and adversely affected.

Please also refer to the paragraph headed "Competitive Strengths" in this section and the section headed "Industry Overview" for further information regarding the competitive landscape of the industry.

INSURANCE

We maintain insurance for certain of our offices premises, machineries, manufacturing facilities and inventories in the PRC. As advised by our PRC Legal Adviser, product liability insurance for our products is not mandatory under the PRC law. Our Directors are of the view that our insurance coverage is adequate and is in line with the industry practice.

HEALTH AND WORK SAFETY

To ensure that our production facilities comply with the applicable safety standards, we have established operational safety guidelines and manuals, such as fire safety manual and production safety manual, which set out the requisite requirements and procedures to be adhered to for the prevention of accident in our production facilities. We have installed central dust removal equipment or exhaust gas treatment facilities at our manufacturing facilities. Please also refer to the paragraph headed "Environmental Matters" in this section for further details.

We test our production machineries before commencement of production. All operators of production facilities are required to be trained before they are allowed to operate the facilities. Training sessions are provided on the required safety standards. We also provide training on work safety to new staff.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material accidents or any material or prolonged stoppages of production due to production facilities failure in our operations that would have had a material impact on our business, financial condition or results of operations.

Furthermore, save as disclosed in the paragraph headed "Non-compliance" in this section, during the Track Record Period and up to the Latest Practicable Date, we have complied with applicable standards in relation to health and work safety laws and regulations in the PRC in all material respects.

ENVIRONMENTAL MATTERS

Our operations in the PRC are subject to the environmental laws and regulations in the PRC, details of which are set out in the section headed "Appendix III — Regulatory Overview — Overview of PRC Law and Regulations — 7. Environmental protection". We consider the protection of the environment to be important and we are fully committed to comply with all applicable requirements under the PRC environmental laws and regulations.

During the Track Record Period, the principal materials purchased by us from our suppliers were particleboards, which were mainly made of wood residue and wood waste and did not involve logging. As confirmed by the PRC Legal Adviser, production and sale of particleboards and the sales of wood residue and wood waste do not require any specific licences or authorisation under the applicable PRC laws. We would, among other things, review the business licences and other necessary licences or approvals of our suppliers before placing orders with them and review our approved lists of suppliers on a regular basis. Please refer to the section headed "Production Materials, Supply Chain Management and Suppliers" in this section for further details on procurement of production materials.

Paint and engine oil waste are pollutants which are generated from our production process and we have engaged an independent third party company with the relevant professional licenses for disposal of these pollutants during the Track Record Period as one of our environmental management measures. During each of the FY2017, FY2018, FY2019 and 6MFY2020, we have incurred costs of approximately RMB20,000, RMB41,000, RMB68,000 and nil for processing and/or disposal of such waste in compliance with the applicable PRC environmental laws and regulations.

Also, as we will also generate dust during our production process, we have installed central dust removal equipment at our Aigesen Factory, Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory. We have also installed exhaust gas treatment facilities at our Weiye Jiankang Factory. In addition, we also regularly review our activities and operations to ensure compliance with the applicable environmental laws and regulations. Our production facilities have undergone inspection and have been approved by the relevant environmental protection authorities.

During the Track Record Period and up to the Latest Practicable Date, we had complied with applicable environmental laws and regulations in the PRC in all material respects; we did not encounter any material environmental protection incidents and we had not received any claims for failing to comply with the relevant licencing and environmental requirements in material respects; we did not receive any material claims from our customers or any other parties for failing to comply with the relevant environmental requirements.

INTELLECTUAL PROPERTY

The details of the material intellectual property rights owned by us are set out in "Appendix V — Statutory and General Information — Further Details About the Business of our Company — 11. Intellectual property rights of our Group". Please refer to the section headed "Research and Development" in this section for details of our policies and internal control measures to protect our intellectual property rights and avoid infringement of third-party intellectual property rights.

As at the Latest Practicable Date, we were not aware of any material disputes or infringement of our intellectual property rights pending or threatened against us and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights.

EMPLOYEES

We had 3,084 full-time employees as at 30 June 2020 which are all located in the PRC. The following table shows a breakdown of its employees by department as at 30 June 2020:

Department	Number of employees
Sales and marketing	23
Production and manufacturing	2,722
Procurement	24
Inventory and logistics	79
Quality control	68
R&D	28
Corporate administration and general staff	106
Finance	34
Total	3,084

Recruitment and remuneration

We generally recruit and employ our employees from the open market and through online employment platform, having regard to various factors including their industry experience and educational qualifications. We assess the available human resources on a continuous basis and will determine whether additional employees are required to cope with our business development. During each of the FY2017, FY2018, FY2019 and 6MFY2020, our total staff costs were approximately RMB147.9 million, RMB303.6 million, RMB230.2 million and RMB115.6 million, respectively.

Training

We recognise the importance of good relationship with our employees. Our Directors believe that the working environment and benefits offered to our employees have contributed to building good staff relations and retention. We organise bond-building events for our staff regularly. We continue to provide training for new staff and existing staff to enhance technical and safety knowledge as well as knowledge of industry quality standards. We also provide fire safety training to our production staff regularly. Our Directors believe such initiatives have contributed to the increased employee productivity.

We seek to grow our management team internally through effective training and promotion programme.

Welfare or mandatory contributions

Save as disclosed in the paragraph headed "Non-compliance" in this section, we have complied with the applicable labour laws and regulations in all material respects in respect of statutory welfare or mandatory contributions required of us as an employer in the PRC where we had business operations during the Track Record Period. Please refer to the section headed "Appendix III — Regulatory Overview — Overview of PRC Law and Regulations — 6. Employment and social insurance" for further details of applicable labour laws and regulations of the PRC.

Labour union

Our employees are not unionised. Our Directors consider that we have maintained good working relationships with our employees. During the Track Record Period, there was no incidence of work stoppages, labour disputes, litigation, claims, administrative action or arbitration relating to labour disputes which would have had a material impact on our business, financial condition or results of operations.

PROPERTIES

Owned properties

We had the following self-owned properties in the PRC as at 30 June 2020:

Properties	Approximate gross floor area *(sq. m.)*	Approximate site area *(sq. m.)*	Usage
Our Huisen Furniture Factory located in Longnan, Ganzhou, Jiangxi Province, the PRC	62,832.1	84,667.1	Approximately 55,000.0 sq. m. are for our office, production and warehouse. Approximately 1,241.0 sq. m. were subcontracted to Independent Third Parties to operate shops and restaurants *(Note 1)*
Our Huiming Wood Factory located in Nankang, Ganzhou, Jiangxi Province, the PRC	26,569.8	40,413.8	All are for our office, production and warehouse
Our Huisen Mingda Factory located in Longnan, Ganzhou, Jiangxi Province, the PRC	29,681.8	63,437.9	All are for our office, production and warehouse
Our Weiye Jiankang Factory located in Longnan, Ganzhou, Jiangxi Province, the PRC	22,971.5	44,000.2	All are for our office, production and warehouse
Our Aigesen Factory located in Nankang, Ganzhou, Jiangxi Province, the PRC	58,415.5	98,358.7	All are for our office, production and warehouse
Total:	**200,470.7**	**330,877.7**	

Notes:

1. During the Track Record Period, Huisen Furniture leased to Independent Third Parties certain part of the buildings in Huisen Furniture Factory, which is situated on an industrial land for commercial use. Huisen Furniture has terminated the leases in January 2018. Please refer to the paragraph headed "Non-Compliance" in this section for further details.

2. We are exempted from compliance with the requirement of including a property valuation report under Chapter 5 of the Listing Rules and section 342(1)(b) of the Companies (WUMP) Ordinance as we did not have any property interest that forms part of our property activities, and no single property interest that forms part of our non-property activities had a carrying amount of 15% or above of our total assets as at 30 June 2020. Pursuant to Rule 5.01A of the Listing Rules, if the carrying amount of the property interests that do not form part of a listing applicant's property activities are below 15%, the prospectus will be exempted from compliance with the requirement of including a property valuation report. In respect of the requirements under section 342(1)(b) of the Companies (WUMP) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, similar exemptions are also available under section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Leased properties

We had leased the following properties in U.S. as at 30 June 2020:

Location	**Approximate gross floor area** *(sq.m.)*	**Lease expiring**	**Usage**
Suite E, Kimberly Plaza, 2505 S. Walton Bentonville, Arkansas, U.S.	603.9	31 August 2025	Showroom
360W 132 Street, Los Angeles CA 90061, U.S.	102	4 September 2022	Warehouse and showroom

During the Track Record Period, we did not have any issue or dispute with landlord in securing or renewing our leases which would have had material impact on our business, financial condition or results of operations. As we do not anticipate any difficulty in relocating any of the above leased properties in the event of non-renewal thereof, we consider that these leased properties are not crucial to our operations and therefore any non-renewal thereof would not have any material impact on our business, financial condition or results of operations.

Buildings

As at the Latest Practicable Date, we had building ownership certificates for 36 buildings with an aggregate gross floor area of approximately 200,470.7 sq.m. comprising production facilities, warehouse, office, dormitories and various ancillary building.

LICENCES AND PERMITS

There is no specific licencing requirement for conducting our business in the PRC in addition to what is generally required for carrying on business in such jurisdiction. As at the Latest Practicable Date, save as disclosed in the paragraph headed "Non-compliance" in this section, we had obtained all material requisite permits, licences and approvals for our business operations from the relevant governmental bodies and authorities. Details of our material licences and permits as at the Latest Practicable Date are as follows:

Name of our subsidiaries		Relevant licences/permits	Date of grant/ registration	Expiry date	Whether renewal is required	Status of renewal (if applicable)
Huiming Wood	(a)	Business Licence (營業執照)	20 February 2019	N/A	N/A	N/A
	(b)	Registration Form of Foreign Trade Operator* (對外貿易經營者備案登記表)	28 March 2017	N/A	N/A	N/A
	(c)	Registration Certificate of the Customs of the PRC for Customs Declaration Entities* (中華人民共和國海關報關單位註冊登記證書)	30 March 2017	Long-term	N/A	N/A
	(d)	Registration of Pollutant Discharge for Fix Pollution Sources* (固定污染源排污登記)	14 January 2020	13 January 2025	Yes	N/A
Huisen Furniture	(a)	Business Licence (營業執照)	5 January 2018	N/A	N/A	N/A
	(b)	Registration Form of Foreign Trade Operator* (對外貿易經營者備案登記表)	16 May 2017	N/A	N/A	N/A
	(c)	Registration Certificate of the Customs of the PRC for Customs Declaration Entities* (中華人民共和國海關報關單位註冊登記證書)	19 October 2006	Long-term	N/A	N/A
	(d)	Registration Form of Enterprises Applying for Entry-Exit Inspection and Quarantine* (出入境檢驗檢疫報檢企業備案表)	25 May 2017	N/A	N/A	N/A
	(e)	Registration of Pollutant Discharge Permit for Fix Pollution Sources* (固定污染源排污登記)	5 March 2020	4 March 2025	Yes	N/A

Name of our subsidiaries		Relevant licences/permits	Date of grant/ registration	Expiry date	Whether renewal is required	Status of renewal (if applicable)
Weiye Jiankang	(a)	Business Licence (營業執照)	25 May 2017	N/A	N/A	N/A
	(b)	Registration Form of Foreign Trade Operator* (對外貿易經營者備案登記表)	16 May 2017	N/A	N/A	N/A
	(c)	Registration Certificate of the Customs of the PRC for Customs Declaration Entities* (中華人民共和國海關報關單位註冊登記證書)	20 August 2015	Long-term	N/A	N/A
	(d)	Registration of Pollutant Discharge for Fix Pollution Sources* (固定污染源排污登記)	21 March 2020	20 March 2025	Yes	N/A
Aigesen	(a)	Business Licence (營業執照)	9 December 2016	N/A	N/A	N/A
	(b)	Pollutant Discharge Permit* (排污許可證)	22 November 2019	21 November 2022	Yes	N/A
Huisen Mingda	(a)	Business Licence (營業執照)	3 September 2018	N/A	N/A	N/A
	(b)	Registration Form of Foreign Trade Operator* (對外貿易經營者備案登記表)	16 May 2017	N/A	N/A	N/A
	(c)	Registration Certificate of the Customs of the PRC for Customs Declaration Entities* (中華人民共和國海關報關單位註冊登記證書)	3 December 2015	Long-term	N/A	N/A
	(d)	Registration of Pollutant Discharge for Fix Pollution Sources* (固定污染源排污登記)	15 February 2020	14 February 2025	Yes	N/A
Huisen Home Technology		Business Licence (營業執照)	24 July 2019	N/A	N/A	N/A

Please refer to the section headed "Appendix III — Regulatory Overview — Overview of PRC law and regulations" for further details of the major laws and regulations applicable to our principal operations in the PRC. Nevertheless, there is no assurance that such laws and regulations in the PRC will not change in the future.

LITIGATION

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our business, financial condition or results of operations.

NON-COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, our business operations had complied with the applicable laws, rules and regulations in all material respects save for certain incidents of non-compliance as follows:

No.	Our subsidiary(ies) involved	Non-compliant incidents	Legal consequences and maximum potential penalty	Remedial actions	Measures in place to prevent recurrence of the non-compliant incidents	Potential operational and financial impacts	Director(s)/senior management involved in the non-compliant incidents	Causes of non-compliant incidents
(1)	(i) Huisen Furniture	**Lack of construction permits before the commencement of building construction:** During the Track Record Period and up to the Latest Practicable Date, Huisen Furniture failed to obtain the construction project planning permit (建設工程規劃許可證) and the construction project commencement permit (建築工程施工許可證) (collectively, the "**Building Construction Permits**") for certain of its buildings before the relevant construction works commenced.	Pursuant to the relevant PRC laws and regulations, the relevant urban and rural planning administrative authority and construction administrative authority may (i) order to discontinue construction; (ii) order to make rectification within a time limit and impose a fine of 5% to 10% of the total construction cost; (iii) if such rectification could not be made, order the relevant buildings or structures to be demolished, or, if such buildings could not be demolished, confiscate the buildings or any illegal income, and may impose a further fine of not more than 10% of the total construction cost; and (iv) may impose a fine of between 1% and 2% of the total contractual price of the construction work (工程合同價款).	Huisen Furniture has obtained the confirmation from Longnan Natural Resources Bureau* (龍南市自然資源局) and Longnan Housing and Urban-Rural Development Bureau* (龍南市住房和城鄉建設局) in November 2020, respectively, which confirmed that no administrative penalty of any kind will be imposed on us. As advised by our PRC Legal Adviser, the Longnan Natural Resources Bureau* (龍南市自然資源局) and the Longnan Housing and Urban-Rural Development Bureau* (龍南市住房和城鄉建設局), as the competent authorities confirmed that as Huisen Furniture has already obtained the relevant building ownership certificates, the relevant administrative authorities will not issue the Building Construction Permits to Huisen Furniture retrospectively or request Huisen Furniture to obtain such permits.	We have delegated Mr. Su, our executive Director and chief financial officer, to oversee compliance in relation to future building construction works of our Group. We will also engage an external PRC legal adviser to provide training/advice to our Board and other relevant staff of our Group on the latest development of various compliance requirements (including matters in relation to Building Construction Permits) under the PRC laws and regulations or for any future building construction works of our Group, from time to time, as and when needed.	No penalty or order for demolishment of buildings or structures of these subsidiaries had ever been imposed by/received from the relevant administrative authority prior to obtaining the Building Construction Permits by Huisen Furniture As confirmed by our PRC Legal Adviser, Longnan Natural Resources Bureau* (龍南市自然資源局) and Longnan Housing and Urban-Rural Development Bureau* (龍南市住房和城鄉建設局) as the competent authorities confirmed that no investigation or punishment will be imposed on Huisen Furniture. Accordingly, no provision in our financial statements is considered necessary.	None. Our staff in the PRC were delegated in ensuring compliance in this regard.	The omission was primarily due to the lack of professional knowledge of the relevant legal requirements of our staff in our administration department.

No.	Our subsidiary(ies) involved	Non-compliant incidents	Legal consequences and maximum potential penalty	Remedial actions	Measures in place to prevent recurrence of the non-compliant incidents	Potential operational and financial impacts	Director(s)/senior management involved in the non-compliant incidents	Causes of non-compliant incidents
(2)	(i) Huisen Mingda (ii) Huming Wood (iii) Aigesen	**Commencement of production prior to obtaining approval for completed construction project:** During the Track Record Period and up to the Latest Practicable Date, Huisen Mingda, Huiming Wood and Aigesen commenced production prior to obtaining the necessary approval for completed construction project and the main reason for not obtaining such approval was because we had not received approval for passing fire control acceptance check in respect of the factories constructed thereon at the material time.	Pursuant to the relevant PRC laws and regulations, the relevant administrative authority may (i) order suspension of operations or use of such facilities; (ii) impose a fine of between RMB30,000 and RMB300,000; (iii) impose a fine of between 2% and 4% of the total construction cost; (iv) order to compensate for any loss resulting therefrom; (v) impose a fine of between 5% and 10% based the fine imposed on the relevant entity on the direct responsible person(s) of such entity.	As at the Latest Practicable Date, Huiming Wood has already passed the fire control acceptance check for its factory and as advised by our PRC Legal Adviser, the Construction Bureau of Nankang District Ganzhou* (贛州市南康區建設局) (currently known as Housing and Urban-Rural Development Bureau of Nankang District Ganzhou* (贛州市南康區住房和城鄉建設局)), as a competent authority confirmed that as Huiming Wood has already obtained the relevant building ownership certificates, it will no longer issue approval for completed construction project. As at the Latest Practicable Date, Huisen Mingda has already passed the fire control acceptance check for its factory and obtained the relevant building ownership certificates. As advised by our PRC Legal Adviser, the Longnan Housing and Urban Rural Development Bureau* (龍南市住房和城鄉建設局), as a competent authority confirmed that as Huisen Mingda has already obtained the relevant building ownership certificates, it will no longer issue approval for completed construction project. Aigesen has already passed the fire control acceptance check in respect of part of its factory as confirmed by Housing and Urban-Rural Development Bureau of Nankang District Ganzhou* (贛州市南康區住房和城鄉建設局). As at the Latest Practicable Date, Aigesen has not yet obtained the approval for passing fire control acceptance check for the remaining area of its factory. Aigesen is in the course of improving its fire control measures and applying for the fire control acceptance check in respect of the remaining area of its factory. As advised by our PRC Legal Adviser, the Housing and Urban-Rural Development Bureau of Nankang District Ganzhou* (贛州市南康區住房和城鄉建設局), as a competent authority confirmed that as Aigesen has already obtained the relevant building ownership certificates, it will no longer issue approval for completed construction project.	We have delegated Mr. Su, our executive Director and chief financial officer, to oversee compliance in relation to obtaining the approval for completed construction project. He was responsible for handling the rectification of the non-compliances and he is therefore familiar with the relevant PRC laws and regulations in relation to approval for completed construction project. We will also engage an external PRC legal adviser to provide training/advice to our Board and other relevant staff of our Group on the latest development of various compliance requirements (including matters in relation to approval for completed construction project) under the PRC laws and regulations or for any future construction works of our Group, from time to time, as and when needed.	Aigesen was fined RMB5,000 for not filing the fire design proposal in July 2017. Save for the above, no other penalty or order for suspension of operations or use of facilities of these subsidiaries had been imposed by/received from the relevant administrative authority during the Track Record Period and up to the Latest Practicable Date. As confirmed by our PRC Legal Adviser, the Longnan Housing and Urban-Rural Development Bureau* (龍南市住房和城鄉建設局), and the Housing and Urban-Rural Development Bureau of Nankang District Ganzhou* (贛州市南康區住房和城鄉建設局) as the competent authorities confirmed that no further investigation or punishment or fine will be imposed on these subsidiaries and no suspension of operations of the relevant factories will be ordered. We do not foresee any impediment in passing the fire control acceptance check for Aigesen. Further, as confirmed by our PRC Legal Adviser, the Housing and Urban-Rural Development Bureau of Nankang District Ganzhou* (贛州市南康區住房和城鄉建設局)and the Longnan Housing and Urban-Rural Development Bureau* (龍南市住房和城鄉建設局), as the competent authorities confirmed that there would not be fine or penalty imposed on us for not obtaining approval for completed construction project before we commenced production. Accordingly, no provision in our financial statements is considered necessary.	None. Our staff in the PRC were delegated in ensuring compliance in this regard.	The omission was primarily due to the lack of professional knowledge of the relevant legal requirements of our staff in our administration and production and manufacturing departments.

No.	Our subsidiary(ies) involved	Non-compliant incidents	Legal consequences and maximum potential penalty	Remedial actions	Measures in place to prevent recurrence of the non-compliant incidents	Potential operational and financial impacts	Director(s)/senior management involved in the non-compliant incidents	Causes of non-compliant incidents
(3)	Huisen Furniture	**Lease of industrial land for commercial use:** During the Track Record Period, Huisen Furniture leased to Independent Third Parties certain part of the buildings in Huisen Furniture Factory, which is situated on an industrial land for commercial use.	Pursuant to the relevant PRC laws and regulations, the relevant real estate administrative authority may make order for ratification, issue warning or impose administrative penalty.	Huisen Furniture has terminated the leases in January 2018.	We have delegated Mr. Su, our executive Director and chief financial officer, to oversee compliance in relation to land use rights. He was responsible for handling the rectification of the non-compliances and he is therefore familiar with the relevant PRC laws and regulations in relation to land use rights. We will also engage an external PRC legal adviser to provide training/advice to our Board and other relevant staff of our Group on the latest development of various compliance requirements (including matters in relation to land use rights) under the PRC laws and regulations or for any future construction works of our Group, from time to time, as and when needed.	No penalty or order for ratification had ever been imposed by/received from the relevant administrative authority during the Track Record Period and up to the Latest Practicable Date. As confirmed by our PRC Legal Adviser, the Longnan Natural Resources Bureau* (龍南市自然資源局) as a competent authority confirmed that no further investigation or punishment will be imposed on Huisen Furniture. Accordingly, no provision in our financial statements is considered necessary.	None. Our staff in the PRC were delegated in ensuring compliance in this regard.	The omission was primarily due to the lack of professional knowledge of the relevant legal requirements of our staff in our administration department.

No.	Our subsidiary(ies) involved	Non-compliant incidents	Legal consequences and maximum potential penalty	Remedial actions	Measures in place to prevent recurrence of the non-compliant incidents	Potential operational and financial impacts	Director(s)/senior management involved in the non-compliant incidents	Causes of non-compliant incidents
(4)	(i) Huisen Furniture (ii) Weiye Jiankang (iii) Huisen Mingda (iv) Huiming Wood (v) Aigesen (vi) Huisen Home Technology	**Failure to make full social insurance contribution for its employees:** During the Track Record Period, these subsidiaries failed to make full contributions to the social insurance for their respective employees which in aggregate amounted to approximately RMB1.8 million.	Pursuant to the relevant PRC laws and regulations, the relevant administrative authority may (i) make an order for payment of the outstanding social insurance contribution within a specified time limit; (ii) surcharge at the daily rate of 0.05% of such outstanding contribution calculated from the date which such outstanding contributions become overdue; and (iii) impose a fine in an amount of one to three times of the total outstanding social insurance contribution if the outstanding social insurance contribution remains outstanding after the specified time limit imposed.	As at the Latest Practicable Date, all of our subsidiaries have made full contributions to the social insurance for their respective employees.	We have delegated Mr. Su, our executive Director and chief financial officer, to oversee compliance in relation to social insurance contributions. He was responsible for handling the rectification of the non-compliances and he is therefore familiar with the relevant PRC laws and regulations in relation to social insurance contributions. We will also engage an external PRC legal adviser to provide training/advice to our Board and other relevant staff of our Group on the latest development of various compliance requirements (including matters in relation to social insurance contributions) under the PRC laws and regulations, from time to time, as and when needed.	No penalty had ever been imposed by the relevant administrative authority prior to full contribution to the social insurance. As confirmed by our PRC Legal Adviser, the Longnan Human Resources and Social Insurance Bureau* (龍南市人力資源和社會保障局), Longnan Medical Security Bureau* (龍南市醫療保障局), Ganzhou Nankang District Human Resources and Social Insurance Bureau* (贛州市南康區人力資源和社會保障局) and Ganzhou Nankang District Medical Security Bureau* (贛州市南康區醫療保障局) as the competent authorities confirmed that the outstanding social insurance contribution will not be required to be paid and no further investigation or punishment will be imposed on these subsidiaries. Accordingly, no provision in our financial statements is considered necessary.	None. Our staff in the PRC were delegated in ensuring compliance in this regard.	The omission was primarily due to the lack of professional knowledge of the relevant legal requirements of our staff in our human resources department.

No.	Our subsidiary(ies) involved	Non-compliant incidents	Legal consequences and maximum potential penalty	Remedial actions	Measures in place to prevent recurrence of the non-compliant incidents	Potential operational and financial impacts	Director(s)/senior management involved in the non-compliant incidents	Causes of non-compliant incidents
(5)	(i) Huisen Furniture (ii) Weiye Jiankang (iii) Huisen Mingda (iv) Huiming Wood (v) Aigesen (vi) Huisen Home Technology	**Failure to make housing provident fund contributions for employees:** During the Track Record Period, these subsidiaries failed to make housing provident fund contributions for their employees which in aggregate amounted to approximately RMB0.8 million.	Pursuant to the relevant PRC laws and regulations, the relevant housing provident fund authority may (i) make an order for payment of the outstanding housing provident fund contributions within a specified time limit; and (ii) make petition to the court for enforcement to have these subsidiaries to make up the outstanding housing provident fund contribution.	As at the Latest Practicable Date, all of our subsidiaries have made full housing provident fund contributions for their respective employees.	We have delegated Mr. Su, our executive Director and chief financial officer, to oversee compliance in relation to housing provident fund contributions. He was responsible for handling the rectification of the non-compliances and he is therefore familiar with the relevant PRC laws and regulations in relation to housing provident fund contributions. We will also engage an external PRC legal adviser to provide training/advice to our Board and other relevant staff of our Group on the latest development of various compliance requirements (including matters in relation to housing provident fund contributions) under the PRC laws and regulations, from time to time, as and when needed.	No penalty had ever been imposed by the relevant administrative authority prior to full contribution to the housing provident fund. As confirmed by our PRC Legal Adviser, the Longnan County Housing Provident Fund Management Centre* (龍南市住房公積金管理中心) and Nankang District Office of Ganzhou Housing Provident Fund Management Centre* (贛州市住房公積金管理中心南康區辦事處) as the competent authorities confirmed that the outstanding housing provident fund contributions will not be required to be paid and no further investigation or punishment will be imposed on these subsidiaries. Accordingly, no provision in our financial statements is considered necessary.	None. Our staff in the PRC were delegated in ensuring compliance in this regard.	The omission was primarily due to the lack of professional knowledge of the relevant legal requirements of our staff in our human resources department.

Our Directors are of the view that the underlying cause of the above non-compliant incidents was primarily due to the unfamiliarity with and the lack of professional knowledge of the relevant legal requirements of our staff in our administration, production and manufacturing and/or human resources departments in the PRC, and their failure to seek professional advice timely. In response, our Group has taken the measures as set out above to prevent recurrence of such non-complaint incidents and improve our corporate governance to ensure compliance with applicable laws, rules and regulations going forward.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Company, subject to the terms of the Deed of Indemnity, in respect of all penalties which may be imposed on us for the historical non-compliances on or before the Listing Date. Please refer to the section headed"Appendix V — Statutory and General Information — Other Information — 17. Estate duty, tax and other indemnities" for further details.

INTERNAL CONTROL PROCEDURES AND INTERNAL CONTROL MEASURES TO PREVENT RECURRENCE OF NON-COMPLIANCE INCIDENTS

In order to continuously enhance our corporate governance and to prevent recurrence of the non-compliant incidents as set out in the paragraph headed "Non-Compliance" in this section, we intend to adopt or have adopted the following measures:

(i) we have maintained a list of certificates, licences, permits and procedures that are required in order for us to use lands and construct buildings for production and daily operations and will update this list at least every quarter or when the relevant laws and regulations have changed based on requirements of the local authorities and advice given to us by our external legal adviser;

(ii) as an internal control measure, we will monitor the attainment of licences and filings against the list referred to (i) above and ensure that all relevant permits, certificates and licences are obtained and filings are completed prior to the construction, occupation and usage of such lands and buildings;

(iii) training was provided by our PRC Legal Adviser to our executive Directors, Mr. Suen To Wai (our independent non-executive Director and chairman of our audit committee) and other responsible staff of our Group with respect to applicable PRC laws and regulations regarding social insurance schemes, housing provident funds, land leasing and uses and major PRC laws and regulatory requirements for building constructions;

(iv) we will engage AllBright Law Offices (Fuzhou) as our external legal adviser upon Listing to provide timely legal advices to our Board and other relevant staff on applicable PRC laws, rules and regulations concerning the non-compliance matters occurred in our operations;

(v) we will engage other appropriate external legal advisers and/or institutions and/or consultants to advise, update the knowledge of and/or provide trainings to our Directors, senior management and/or relevant employees on the relevant laws and regulations, including changes thereto, which may affect our business operations;

(vi) when necessary, we will engage external professionals, such as auditors, internal control adviser and other advisers to render professional advice as to compliance with statutory and regulatory requirements, as applicable to us from time to time;

(vii) our audit committee, comprising three independent non-executive Directors, continuously provides our Directors with an independent review of the effectiveness of our financial reporting process, internal control and risk management system and oversees the audit process and performs other duties and responsibilities as assigned by our Directors;

(viii) we have appointed Elstone Capital Limited as our compliance adviser upon Listing pursuant to Rule 3A.19 of the Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules; and

(ix) our Directors have attended training conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under certain applicable Hong Kong laws and regulations, including the Listing Rules prior to the Listing.

Internal Control Review by Independent Internal Control Consultant

We have engaged BDO China as our independent internal control adviser to perform compliance procedures review on our internal control policies related to, among others, our risk management and internal control system and that we have established procedures, systems and controls (including accounting and management systems). The review period was from 1 January 2017 to 31 December 2017. BDO China conducted a follow-up reviews in March and August 2018. BDO China did not identify any deficiencies in our internal control systems that would have had a material impact on our business, financial condition or results of operations. As such, our Directors consider, and BDO China concurs, that our internal control system is adequate and effective.

We have also engaged BDO China to perform compliance procedures review on our historical non-compliance incidents in December 2017. The scope of work for the historical non-compliance incidents covers all of those incidents as set out in the paragraph headed "Non-Compliance" in this section. Based on its findings, BDO China had put forward its recommendations, all of which were adopted and implemented by us in February 2018.

BDO China conducted a follow-up review on the status of the implementation of the enhanced internal control measures in March 2018. Based on the follow-up reviews conducted, BDO China confirmed that we have commenced the implementation of the enhanced internal control measures in March 2018 and satisfactorily completed the relevant internal control improvement and rectification through the enhanced internal control measures in August 2018. Based on the abovementioned reviews, BDO China is of the view that the enhanced internal control measures are adequate and effective to prevent future recurrences of historical non-compliances incidents.

For further information on our implementation of the recommendations from BDO China, please refer to the enhanced internal control measures as set out in the paragraph headed "Non-Compliance" in this section.

Mr. Su, our executive Director, is responsible for actions taken or to be taken to implement the enhanced internal control measures in response to our non-compliance incidents during the Track Record Period, and to monitor and ensure our future compliance with the relevant laws and regulations.

Views of our Directors and the Sole Sponsor

Having considered (i) the nature, reasons, and consequences of the non-compliances; (ii) the rectification measures we have undertaken; (iii) the legal advice from our PRC Legal Adviser; (iv) the various confirmations from the relevant competent government authorities we have obtained; (v) the indemnities of our Controlling Shareholders; (vi) the enhanced internal control measures adopted by us pursuant to the recommendations made by BDO China, our independent internal control adviser; (vii) the training attended by our Directors in relation to their obligations and duties as directors of publicly listed companies from a Hong Kong law perspective; (viii) the training attended by our executive Directors and chairman of our audit committee and other responsible staff of our Group with respect to applicable PRC laws and regulations regarding social insurance schemes, housing provident funds, land leasing and uses and major regulatory requirements for building constructions; (ix) the non-compliance incidents did not involve any dishonesty or fraudulent act on the part of our executive Directors, and did not impugn on their integrity or competence, our Directors are of the view that the enhanced internal control measures adopted by us are adequate and effective and that these historical non-compliance incidents do not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. The Sole Sponsor concurred with such view of our Directors on the same basis as described above.

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, we had delivered certain furniture products to the Relevant Countries, which were subject to certain sanctions programs, and our revenue generated from sales to the Relevant Countries amounted to approximately RMB1.9 million, RMB1.0 million, nil and nil, representing approximately 0.07%, 0.03%, nil and nil of our total revenue for the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Apart from the deliveries to the Relevant Countries, we had delivered furniture products to Cuba, Iran and Sudan (i.e. the Cuba, Iran and Sudan Deliveries) during 2014 to 2016. We have been advised by our International Sanctions Legal Advisers that apart from our Cuba, Iran and Sudan Deliveries, our business activities with the Relevant Countries do not appear to have implicated any violation of International Sanctions.

The Cuba, Iran and Sudan Deliveries involved seven payments in an aggregate amount of US$445,184 from five customers located in Hong Kong and the United States from 2014 to 2016 that were denominated in U.S. dollars and were processed through the U.S. financial system before they were received by us. As advised by our International Sanctions Legal Advisers, the Cuba, Iran and Sudan Deliveries appear to be a potential violation of U.S. sanctions regulations that are applicable to transactions with Cuba, Iran and Sudan.

We have been advised by our International Sanctions Legal Advisers that our business dealings relating to Countries subject to International Sanctions except for the Cuba, Iran and Sudan Deliveries, as set out in the paragraph headed "Business Activities in Countries subject to International Sanctions — Sanctions Risk — United States" in this section, do not appear to be inconsistent with the applicable international sanctions administered and enforced by the United States, the United Nations, the European Union and the Government of Australia.

Sanctions Risk

The U.S. and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries. For a summary of the sanctions regimes imposed by the U.S., the European Union, the United Nations and Australia, please refer to the section headed "Appendix III — Regulatory Overview — Sanctions Laws and Regulations".

United States

During the Track Record Period, we made sales and deliveries of our products to the Relevant Countries. We are advised by our International Sanctions Legal Advisers that our business activities with the Relevant Countries do not appear to have implicated any violation of International Sanctions. The Cuba, Iran and Sudan Deliveries involved seven payments in an aggregate amount of US$445,184 from five customers located in Hong Kong and the United States from 2014 to 2016 that were denominated in U.S. dollars and were processed through the U.S. financial system before they were received by us. As advised by our International Sanctions Legal Advisers, the Cuba, Iran and Sudan Deliveries appear to be a potential violation of U.S. sanctions regulations that are applicable to transactions with Cuba, Iran and Sudan.

After consulting with our International Sanctions Legal Advisers, we filed a VSD with OFAC in February 2019 related to the Cuba, Iran and Sudan Deliveries, and will cooperate fully with the US government in resolving this matter. Based on the facts and circumstances and the assessment made by our International Sanctions Legal Advisers, our International Sanctions Legal Advisers have advised us that, based on their experience in working with companies presenting similar facts before OFAC, that there are several potential outcomes from our OFAC VSD submission. First, OFAC may issue a cautionary letter to close out the case without the imposition of any penalty. Alternatively, we could be required to pay an administrative penalty for the relevant transactions. The potential penalties for violations of the U.S. sanctions regulations in this case include a monetary fine of up to US$222,592 based on the relevant enforcement guidelines, although any such amount likely would be reduced by OFAC during the negotiated settlement process by taking into account mitigating factors and the most likely amount would range from approximately US$22,592 to US$155,814 after mitigation. Based on the facts and circumstances and the assessment made by our International Sanctions Legal Advisers, our Directors believe that the most likely result of the VSD will be a cautionary letter issued by OFAC to close out the case without the imposition of any penalty. If, however, in the less likely event that OFAC were to impose an administrative penalty on us as a result of potential sanctions violations, our Directors believe, based on consultation with our International Sanctions Legal Advisers, that such penalties, even if imposed, are unlikely to have a material adverse effect on our financial condition or results of operations. Up to the Latest Practicable Date, we had not received feedback or response from OFAC in respect of our VSD submitted in February 2019. As advised by our International Sanctions Legal Advisers, OFAC is not subject to a statutory or regulatory timeframe to complete its review of our VSD and it is not uncommon for OFAC to take several years before concluding a case. It is believed that the progress of OFAC's review of our VSD to a certain extent was affected by the office closure and/or remote working arrangements due to the COVID-19 outbreak during the large part of calendar year 2020. We will, as soon as practicable after OFAC closes out our case, make appropriate disclosure and/or announcement in accordance with the applicable Listing Rules.

We received the payments in respect of the Cuba, Iran and Sudan Deliveries through our bank accounts maintained with three PRC banks (the "**PRC Receiving Banks**") from our customers located in Hong Kong and the United States. We have not received any direct payments from any entity or bank account in Cuba, Iran or Sudan. To the best of our knowledge, our customers had further re-sold our furniture products involved in the Cuba, Iran and Sudan Deliveries to their respective downstream customers and it was our customers and/or their respective downstream customers who received payments from the relevant end customers. We have sent written notifications to the PRC Receiving Banks regarding the potential violation of U.S. sanction regulations in respect of the Cuba, Iran and Sudan Deliveries. As at the Latest Practicable Date, we have not received any response from the PRC Receiving Banks regarding our potential violation of U.S. sanction regulations. As advised by our International Sanctions Legal Advisers, OFAC rules do not legally require us to notify the relevant banks involved in the processing of payments for Cuba, Iran and Sudan Deliveries of the VSD filing nor is it a customary practice to do so given that our Group has not been subject to any sanctions imposed by OFAC, nor have we been identified as an entity on the SDN Lists. Further, up to the Latest Practicable Date, we had not received any request from OFAC requiring us to notify such relevant banks involved. Pursuant to the existing loan and/or banking facilities agreements entered into with the banks (which are all located within the PRC) which granted loans and/or banking facilities to us, none of such agreements contains provisions requiring us to notify these banks in respect of the potential violation of U.S. sanctions regulations by our Group. As such, apart from the PRC Receiving Banks, we did not notify the relevant banks of our customers and/or their respective downstream customers involved the processing of the payments for the Cuba, Iran and Sudan Deliveries or other banks which granted loans and/or banking facilities to us regarding our VSD filings. We will continue to monitor the situation and inform the relevant banks if so requested by OFAC or otherwise required by the relevant rules and regulations. While we have filed a VSD with OFAC, in which we have yet to received a conclusion on our case as at the Latest Practicable Date, in the worst case scenario whereby we were found to have violated the relevant U.S. sanctions regulations in respect of the Cuba, Iran and Sudan Deliveries and were imposed of an administrative penalty as a result thereof, and these banks suspend or otherwise terminate its loans and/or banking facilities to us, our Directors are of the view that it will unlikely to have a material adverse effect on our business operations and/or our financial condition, taken into account the internal resources of our Group (with cash and cash equivalents of RMB1,616.2 million as at 15 October 2020 available for repaying all of our existing bank loans of RMB568.5 million outstanding as at 15 October 2020 and for general working capital for our business operations). Furthermore, our Directors are of the view that we could obtain loan and/or banking facilities from other banks in the PRC. Going forward, we will continuously monitor and evaluate our business and will enhance our internal control measures as mentioned in the paragraphs headed "Business — Our undertaking and internal control procedures" below in order to minimise our sanctions risk exposure.

As advised by our International Sanctions Legal Advisers, our business dealings with the Countries subject to International Sanctions other than Cuba, Iran and Sudan, do not implicate any International Sanctions administered by the United States. All of our activities that do have exposure to U.S. administered International Sanctions will be addressed with OFAC through the VSD process. Further, given the scope of the Global Offering and the expected use of proceeds as set out in this prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Global Offering will not implicate any applicable international sanctions on such parties, including our Company, our investors, our Shareholders, the Stock Exchange and its listing committee and related group companies.

United Nations

On the basis that our activities involving the Relevant Countries were limited to the sale of furniture products that are not export-controlled, upon the advice of our International Sanctions Legal Advisers, our business dealings do not appear to implicate restrictive measures adopted by the United Nations.

European Union

Upon the advice of our International Sanctions Legal Advisers, our business dealings with respect to the identified customers in the Relevant Countries do not trigger the prohibitions or wider restrictions adopted by the European Union, including those extended to the UK overseas territories, since such business activities were not undertaken by EU or UK overseas territories, persons or entities and are limited to the sale of furniture products which are not export-controlled in the European Union or UK Overseas Territories or involved in the export from the European Union or UK Overseas Territories of certain listed military or items that are normally used for civilian purposes but may have military applications.

Australia

Upon the advice of our International Sanctions Legal Advisers, on the basis that neither our Company nor any of our subsidiaries are connected to Australia and our dealings do not appear to involve products or services that are restricted under Australian export controls, our activities with the Relevant Countries do not implicate the prohibitions or wider restrictions under International Sanctions measures administered and enforced by the Government of Australia.

Our undertakings and internal control procedures

Since July 2016, we have ceased all of our sales transactions relating to Cuba, Iran and Sudan. Further, we have no present intention to undertake any future business with persons on the SDN Lists, any business connected to any comprehensively sanctioned countries, or any other business that may expose us to sanctions risks. Furthermore, in our future dealing with customers located in or request delivery to Countries subject to International Sanctions of any kind, we will implement internal control measures to minimise our risk exposure to International Sanctions.

We have undertaken to the Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Countries subject to International Sanctions or any other government, individual or entity sanctioned by the U.S., the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions.

In addition, we have undertaken not to enter into any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and investors to violate or become a target of sanctions laws by the U.S., the European Union, the United Nations or Australia. We will also disclose on the respective websites of the Stock Exchange and our Company if we believe that the transactions we entered into in and/or in connection with Countries subject to International Sanctions or with Sanctioned Persons (if any) would put us or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in and/or in connection with Countries subject to International Sanctions and with Sanctioned Persons and our business intention relating to Countries subject to International Sanctions and with Sanctioned Persons. If we were in breach of such undertakings to the Stock Exchange, we would be subject to the risk of possible delisting of our Shares on the Stock Exchange.

We have adopted enhanced internal control and risk management measures to help us continuously monitor and evaluate our business and take measures to protect our interest and our Shareholders from economic sanctions risks. The following measures have been implemented as at the Latest Practicable Date:

(i) to further enhance our existing internal risk management functions, our Board has established a risk management committee. The members of such committee comprise Mr. Zeng, Ms. Zeng ML and Mr. Gao Jianhua, and their responsibilities include, among other things, monitoring our exposure to sanctions risks and our implementation of the related internal control procedures. Mr. Zeng is the chairman of the risk management committee. Our risk management committee will hold at least two meetings each year to monitor our exposure to sanctions risks;

(ii) we will evaluate the sanctions risks prior to determining whether we should embark on any business opportunities in Countries subject to International Sanctions and with Sanctioned Persons. According to our internal control procedures, the designated team from our sales and marketing department (the "**Designated Team**") needs to review the relevant business transaction documentation from customers or potential customers from Countries subject to International Sanctions and with Sanctioned Persons. In particular, the Designated Team will review the information (such as identity and nature of business as well as its ownership) relating to the counterparty to the contract along with the draft business transaction documentation. The Designated Team will check the counterparty against the various lists of restricted parties and countries maintained by the United States, the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in Countries subject to International Sanctions or a Sanctioned Person. No purchase order would be accepted and no product delivery would be proceeded unless and until the checking is cleared. If any potential sanctions risk is identified, the Designated Team will report to the risk management committee and we will seek advice from reputable external international legal counsel with necessary expertise and experience in International Sanctions matters;

(iii) the risk management committee will periodically review our internal control policies and procedures and monitor the compliance check conducted by the Designated Team with respect to sanctions matters. As and when the risk management committee considers necessary, we will retain external international legal counsel with necessary expertise and experience in sanctions matters for recommendations and advice; and

(iv) if necessary, external international legal counsel will provide training programs relating to the sanctions to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal counsel will provide current list of Countries subject to International Sanctions and Sanctioned Persons to our Directors, senior management and other relevant personnel, who will in turn disseminate such information throughout our domestic operations and overseas offices and branches.

Our International Sanctions Legal Advisers have reviewed and evaluated these internal control measures and are of the view that these measures are adequate and effective for the Company to comply with our undertaking to the Stock Exchange.

Having taken the above advice of our International Sanctions Legal Advisers into account, our Directors are of the view that our measures provide a reasonably adequate and effective internal control framework to assist us in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of our Shareholders and us. After undertaking the relevant due diligence and having considered the measures adopted by our Company and the advice of the International Sanctions Legal Advisers, and subject to the full implementation and enforcement of such measures, the Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective internal control framework to assist the Company in identifying and monitoring any material risk relating to sanction laws.

RISK MANAGEMENT

We are exposed to various risks during our operations. For more details about these risks, please refer to the section headed "Risk Factors". We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the production and sales of products, administration of daily operations, financial reporting and recording, fund management, compliance with applicable laws and regulations on environmental protection, production safety and product safety. Our Board oversees and manages the overall risks associated with our operations. We had established an audit committee to review and supervise our financial reporting process and internal control system. For the qualifications and experience of these committee members as well as a detailed description of the responsibility of our audit committee, please refer to the section headed "Directors and Senior Management".

OVERVIEW

Our Board consists of seven Directors, including four executive Directors and three independent non-executive Directors. Our Board is responsible for and has general powers for the management and the conduct of our business. The following table lists the current members of our Board and sets out certain information in respect of members of our Board.

Directors

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities	Relationship with other Directors and senior management
Executive Directors						
Zeng Ming (曾明)	50	Executive Director and chairman of our Board	November 2005	16 March 2018	Overall strategic development and business development of our Group, being a member of the nomination committee and the risk management committee	Brother of Ms. Zeng ML
Zeng Minglan (曾明蘭)	45	Executive Director and vice chairlady of our Board	November 2005	10 September 2018	Formulation of financial strategies, financial management and internal control of our Group, being a member of the risk management committee	Sister of Mr. Zeng
Wu Runlu (吳潤陸)	54	Executive Director and general manager of our Group	January 2018	10 September 2018	Formulation and implementation of the strategies and business plans and overall daily operation management of our Group	None
Su Xinlin (蘇鑫林)	47	Executive Director and chief financial officer of our Group	January 2016	10 September 2018	Overall financial management of our Group, being a member of the remuneration committee and the corporate governance committee	None

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities	Relationship with other Directors and senior management
Independent Non-executive Directors						
Suen To Wai (孫多偉)	46	Independent non-executive Director	December 2020	2 December 2020	Overseeing the overall affairs of our Group at Board level, being a member of the audit committee, the remuneration committee, the nomination committee and the corporate governance committee	None
Mr. Lau Jing Yeung William (劉正揚)	39	Independent non-executive Director	December 2020	2 December 2020	Overseeing the overall affairs of our Group at Board level, being a member of the audit committee, the remuneration committee, the nomination committee and the corporate governance committee	None
Gao Jianhua (高建華)	59	Independent non-executive Director	December 2020	2 December 2020	Overseeing the overall affairs of our Group at Board level, being a member of the audit committee and the risk management committee	None

Senior management

The following table lists the current members of our senior management (other than our Directors) who are primarily responsible for the operations and management of our Group:

Name	Age	Position	Date of joining our Group	Date of appointment as senior management	Roles and responsibilities	Relationship with other Directors and senior management
Zeng Ruilu (曾瑞祿)	59	Deputy general manager of our Group	February 2015	10 February 2015	Daily operation management of our Group	None
Li Guoan (李國安)	44	Sales manager of our Group	July 2017	10 July 2017	Overall sales and customer relationship management of our Group	None

BOARD OF DIRECTORS

Executive Directors

Mr. Zeng Ming (曾明), aged 50
Executive Director and chairman of our Board

Mr. Zeng, is our founder, an executive Director and the chairman of our Board who is responsible for the overall strategic development and business development of our Group. He was appointed as a Director on 16 March 2018 and re-designated as an executive Director on 10 September 2018. Mr. Zeng is also a director of certain subsidiaries of our Group and the brother of Ms. Zeng ML. Mr. Zeng has over 18 years of experience in the furniture industry. He worked at Ganzhou Weibao Furniture Co., Limited* (贛州維寶傢俱有限公司) (formerly known as Gan County Hongyuan Agricultural Development Co., Limited* (贛縣鴻源農業開發有限責任公司)) as a salesperson from October 1998 to October 2000 and a sales and production director from November 2000 to August 2001. He was then engaged in the business of manufacturing and sales of furniture through Ganzhou Jiaye Furniture Co., Limited* (贛州佳業傢俱有限公司) in August 2001. He founded our Group by establishing Huisen Furniture in November 2005, and has been involved in our operation and management since our inception. Mr. Zeng obtained a diploma in social science majoring in law from Southern Institute of Metallurgy (南方冶金學院) (currently known as Jiangxi University of Science and Technology (江西理工大學)) in July 1992. Mr. Zeng was a director of Huitong County Fulin Wood Industry Co., Limited* (會同縣富林木業有限公司) ("**Fulin**") *(Note)*.

Note: Fulin was established in the PRC in September 2004 and was principally engaged in sale, manufacturing and processing of MDFs and plywood prior to its dissolution. The business licence of Fulin was revoked on 9 March 2008 as it did not undergo annual inspection within the specified deadline. Mr. Zeng confirmed that Fulin was solvent before the business licence was being revoked. As at the Latest Practicable Date, Mr. Zeng confirmed that no claims had been made against him and he was not aware of any threatened and potential claims made against him as a result of the dissolution of Fulin. Fulin was deregistered on 5 December 2018.

Ms. Zeng Minglan (曾明蘭), aged 45
Executive Director and vice chairlady of our Board

Ms. Zeng ML, is an executive Director and the vice chairlady of our Board who is responsible for the formulation of financial strategies, financial management and internal control of our Group. She was appointed as an executive Director on 10 September 2018. Ms. Zeng ML is also a director of certain subsidiaries of our Group and the sister of Mr. Zeng. Ms. Zeng ML has over 21 years of experience in financial management and accounting. Ms. Zeng ML joined our Group in November 2005. Ms. Zeng ML worked at Ganzhou Jiaye Furniture Co., Limited* (贛州佳業傢俱有限公司) as financial manager from June 2005 to September 2007. She was also an accountant of Agriculture Bureau of Gan County* (贛縣農業局) from November 1997 to March 2005, mainly responsible for the handling of daily accounting matters. Ms. Zeng ML was also a committee member of the 15th Longnon County Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議龍南縣第十五屆委員會委員). Ms. Zeng ML obtained a certificate in the senior financial director course (online program) from the University of International Business and Economics (對外經濟貿易大學) in May 2013.

Mr. Wu Runlu (吳潤陸), aged 54
Executive Director and general manager of our Group

Mr. Wu, is an executive Director and the general manager of our Group who is responsible for the formulation and implementation of the strategies and business plans and overall daily operation management of our Group. He was appointed as an executive Director on 10 September 2018. Mr. Wu joined our Group in January 2018. Mr. Wu has over 18 years of experience in the manufacturing industry. Before joining our Group, Mr. Wu had held various positions in Huajian Group* (華堅集團) ("**Huajian Group**") which principally engages in the manufacturing of women's shoes, including a supervisor at the administrative centre, the deputy general manager of Huajian International Shoe City (Ethiopia) PLC and the executive deputy general manager of Huabao Footwear Co., Limited* (華寶鞋業有限公司) and Huajian Group, from March 1998 to February 2016. He had also worked as a policeman in Qingshanhu branch of Nan Chang Public Security Bureau* (南昌市公安局青山湖分局) from February 1985 to December 1997, mainly responsible for the implementation of the policies, laws and regulations in public security.

Mr. Wu was an executive director, legal representative and general manager of Dongguan City Zuimei Footwear Co., Limited* (東莞市最美鞋業有限公司) ("**Zuimei Footwear**") *(Note)*.

Note: Zuimei Footwear was principally engaged in the manufacturing and sales of footwear, shoe materials and clothing and the research and development of footwear related technology prior to its dissolution. The business licence of Zuimei Footwear was revoked on 30 July 2014 as it did not undergo annual inspection within the specified deadline. Mr. Wu confirmed that, Zuimei Footwear was solvent when its business licence was revoked and as at the Latest Practicable Date, no claims had been made against him and he was not aware of any threatened and potential claims made against him as a result of the dissolution of Zuimei Footwear. Zuimei Footwear was deregistered on 19 November 2018.

Mr. Su Xinlin (蘇鑫林), aged 47
Executive Director and chief financial officer of our Group

Mr. Su, is an executive Director and the chief financial officer of our Group who is responsible for the overall financial management of our Group. He was appointed as an executive Director on 10 September 2018. Mr. Su has over 20 years of experience in accounting and financial management. Mr. Su joined our Group in January 2016. Before joining our Group, he had worked as a financial director of GTS Chemical Holdings PLC, a company then listed on the Alternative Investment Market of London Stock Exchange (stock code: GTS) and subsequently delisted in August 2016, which principally engages in the manufacture of chemical products, from December 2013 to January 2016. He also served as a financial director and a director of Herbalcos International Group Holding Limited (聯合草本國際控股集團有限公司) (formerly known as Holy Luck International Group Holding Limited (恩愷國際集團控股有限公司)) ("**Herbalcos International**"), a company incorporated in Hong Kong, from March 2011 to July 2013 and from July 2012 to August 2016 respectively. He was an assistant accountant and account receivable officer of Reino International Pty Ltd. from August 2009 to June 2010. He was also an assistant accountant of Sterling Commerce (Australia) Pty. Ltd., which is a software company and now a part of IBM, from June 2007 to April 2009 and a manager assistant in the financial department of Xiamen International Trust Company Limited* (廈門國際信托有限公司) from August 1993 to March 2005. Mr. Su became a certified public accountant of Australia in January 2011. Mr. Su obtained a bachelor's degree in accounting from Xiamen University in July 1993 and a master's degree in accounting from Macquarie University, Australia in September 2010.

Mr. Su was a director of Herbalcos International which was dissolved by striking off by the Registrar of Companies in Hong Kong in August 2016. Mr. Su confirmed that, Herbalcos International was solvent at the time of dissolution and as at the Latest Practicable Date, no claims had been made against him and he was not aware of any threatened and potential claims made against him as a result of the dissolution of Herbalcos International.

Independent non-executive Directors

Mr. Suen To Wai (孫多偉), aged 46
Independent non-executive Director

Mr. Suen is an independent non-executive Director. He was appointed as an independent non-executive Director on 2 December 2020. Mr. Suen has over 13 years of experience in accounting and financing. He is the independent non-executive Director who has the qualifications and experience to meet the requirements under the Rule 3.10(2) of the Listing Rules.

Mr. Suen has been the independent non-executive director of China Zenix Auto International Limited, a company listed on the OTC Markets of the U.S. (stock code: ZXAIY), and Ping An Securities Group (Holdings) Limited, a company listed on the Stock Exchange (stock code: 231), since April 2018 and February 2020, respectively. He has been the company secretary of Asia Energy Logistics Group Limited, a company listed on the Stock Exchange (stock code: 351) since July 2020. He is currently an independent non-executive director of MingZhu Logistics Holdings Limited, a company listed on NASDAQ (stock code: YGMZ). He was also an independent non-executive director of CT Environmental Group Limited, a company listed on the Stock Exchange (stock code: 1363), from February 2018 to April 2019, the company secretary of China Smarter Energy Group Holdings Limited, a company listed on the Stock Exchange (stock code: 1004), from February 2017 to April 2019, the company secretary of IDT International Limited, a company listed on the Stock Exchange (stock code: 167), from January 2017 to April 2017 and the chief financial officer and company secretary of China Saite Group Company Limited, a company listed on the Stock Exchange (stock code: 153), from May 2015 to August 2016. He also worked at Deloitte Touche Tohmatsu from January 2001 to 31 January 2012 with his last position as a senior manager. Mr. Suen is a practising member of the Hong Kong Institute of Certified Public Accountants. Mr. Suen obtained a bachelor's degree in arts from The Chinese University of Hong Kong in December 1995. He also obtained a bachelor's degree in commerce from The University of Western Australia in March 2001.

Mr. Lau Jing Yeung William (劉正揚), aged 39
Independent non-executive Director

Mr. Lau is an independent non-executive Director. He was appointed as an independent non-executive Director on 2 December 2020. Mr. Lau has over 12 years of experience in accounting, finance and consulting. Mr. Lau has been the director of Winning Brothers Capital Group Limited since 30 June 2015, mainly responsible for strategic business development. He worked in the China Yinsheng International Securities Limited, which provides asset management services, broker services and advisory services, from September 2017 to January 2018 and his last position was Associate Director. He was a manager of the direct investment department of Yuanta Securities (Hong Kong) Company Limited, a licenced corporation registered with the SFC to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, from August 2014 to June 2015. He was also a manager in the corporate finance department of Mazars CPA Limited from March 2012 to March 2014, and a senior associate of the corporate finance department in the Hong Kong branch of KBC Bank N.V, from April 2010 to November 2011. Mr. Lau was a senior accountant in Ferrier Hodgson Limited from May 2008 to February 2010, an associate in Asian Capital (Corporate Finance) Limited from November 2006 to January 2008, and a staff accountant in Deloitte Touche Tohmatsu from January 2005 to June 2006.

Mr. Lau became a member of the CPA Australia in December 2010, a member of the Institute of Certified Management Accountants in July 2012 and an associate of the Chartered Institute of Management Accountants in June 2011. He obtained a degree of Bachelor of Business (Accountancy) and a degree of Master of Business (Marketing) from the Queensland University of Technology in October 2002 and October 2003 respectively.

Mr. Gao Jianhua (高建華), aged 59
Independent non-executive Director

Mr. Gao is an independent non-executive Director. He was appointed as an independent non-executive Director on 2 December 2020. Mr. Gao has over 27 years of experience in consulting, marketing and management. Mr. Gao was the strategic planning senior manager of Walvax Biotechnology Co., Limited* (雲南沃森生物技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300142), from March 2014 to April 2017, the vice president of Dooshion Garment Co., Limited* (東尚服裝股份有限公司), which principally engages in the export of garment, from March 2009 to March 2014. Mr. Gao is a supervisor of Beijing Huizhi Brilliant Business Management Consulting Company Limited* (北京匯智卓越企業管理諮詢有限公司) and was the chief consultant such company from May 2003 to March 2009. Mr. Gao had held various positions in China Hewlett-Packard Co., Limited (中國惠普有限公司) (currently known as Hewlett Packard Enterprise (China) Co., Limited (慧與(中國)有限公司)) ("**HP China**"), including assistant president, director of strategic planning, general manager of North China region and chief knowledge officer from January 2001 to May 2003. Mr. Gao had also worked as a marketing director of Agilent Technology Company Limited (安捷倫科技有限公司) from November 1999 to January 2001, a marketing director and a marketing engineer and manager of HP China from September 1996 to October 1999 and from March 1986 to October 1994, respectively. Mr. Gao obtained a bachelor's degree in television broadcasting engineering from Beijing Broadcasting Institute (北京廣播學院) (now known as Communication University of China (中國傳媒大學)) in July 1982. He also obtained a master of business administration from China Europe International Business School (中歐國際工商學院) in April 2000.

General

Save as disclosed above and in the section headed "Relationship with our Controlling Shareholders", each of our Directors:

(i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date;

(ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders of our Company as at the Latest Practicable Date;

(iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable inquiries, as at the Latest Practicable Date, there was no other information in relation to our Directors that was required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules or any other material matter relating to our Directors that needs to be brought to the attention of our Shareholders or investors.

As at the Latest Practicable Date, save as the interests of each of the executive Directors in the Shares which are disclosed in the section headed "Appendix V — Statutory and General Information — Further Details about our Directors and Shareholders – 13(d) Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations following the Global Offering", each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

SENIOR MANAGEMENT

Mr. Zeng Ruilu (曾瑞祿), 59
Deputy general manager of our Group

Mr. Zeng Ruilu is the deputy general manager of our Group, and is responsible for the daily operation management of our Group. He was a director of Aigesen from February 2015 to April 2020. He has been the deputy general manager of our Group since he joined our Group in February 2015. Mr. Zeng Ruilu has over 18 years of experience in the wood product manufacturing industry. Mr. Zeng Ruilu was a general manager of Hengda Wood from June 2013 to September 2016 and was mainly responsible for operations management. He also worked as a factory manager of Hongwei Wooden Products (Renhua) Co., Limited* (鴻偉木業(仁化)有限公司), which principally engages in the manufacture of particleboards and is a subsidiary of Hong Wei (Asia) Holdings Company Limited, a company listed on the Stock Exchange (stock code: 8191), from May 2008 to June 2013 and was mainly responsible for the production management. He was a chief engineer of Guangdong Panyu Huaxin Wood Industry*(廣東番禺華新木業) (currently known as Guangdong Shixing County Huazhou Wood Industry Co., Limited* (廣東始興縣華洲木業有限公司)) from 1999 to March 2007 and was mainly responsible for technical management. Mr. Zeng Ruilu completed a course in fibreboards enterprise technical training organised by Nanjing Forestry University in June 1989.

Mr. Li Guoan (李國安), 44
Sales manager of our Group

Mr. Li is the sales manager of our Group, and is responsible for the overall sales and customer relationship management of our Group. He joined our Group in July 2017 as a sales manager. Mr. Li has over 15 years of experience in the furniture industry. Before joining our Group, Mr. Li worked as a salesman from May 2002 to June 2013 and a sales manager from June 2013 to May 2017 in Dongguan Zhenxing Furniture Co., Limited* (東莞震興傢俬有限公司). Mr. Li graduated from Hengyang Normal University (衡陽師範學院) with a major in ideological and political education in July 2000.

COMPANY SECRETARY

Ms. Chan Sau Ling (陳秀玲), aged 50
Company secretary of our Company

Ms. Chan has been appointed as our company secretary with effect from 28 August 2019. Ms. Chan is a director of corporate services of Tricor Services Limited, a global professional services provider specialising in integrated business, corporate and investor services. Ms. Chan has over 20 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Chan is currently the company secretary/joint company secretary of three listed companies on the Stock Exchange, namely, China Longyuan Power Group Corporation Limited (stock code: 916), CSMall Group Limited (stock code: 1815) and HJ Capital (International) Holdings Company Limited (stock code: 982). Ms. Chan is a Chartered Secretary, a Chartered Governance Professional and Fellow of both The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators) in the United Kingdom. Ms. Chan is not an employee of our Company and she provides services to our Company as an external service provider.

Ms. Chan is an external service provider engaged by us as our company secretary and Mr. Su, our executive Director and chief financial officer of our Group, will be the key contact person with whom Ms. Chan can contact.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amounts of remuneration of our Directors for the FY2017, FY2018, FY2019 and 6MFY2020 were approximately RMB1.3 million, RMB95.0 million, RMB5.3 million and RMB1.0 million, respectively. Details of the arrangement for remuneration are set out in the section headed "Appendix I — Accountants' Report — Note 13". Under such arrangement and pursuant to our Directors' service contracts and letters of appointment referred to in the section headed "Appendix V — Statutory and General Information — Further Details about our Directors and Shareholders — 13. Directors", the aggregate amount of directors' fee and other emoluments payable to our Directors for the year ending 31 December 2020 is estimated to be approximately RMB1.8 million, excluding any discretionary bonuses.

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

After Listing, the remuneration committee of our Company will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, their respective time commitment and responsibilities and the performance of our Group.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or any of the five highest paid individuals as an inducement to join or upon joining us. No compensation was paid to, or is receivable by, our Directors or past Directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the Track Record Period.

BOARD DIVERSITY POLICY

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth. Pursuant to our board diversity policy, the selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural, educational background, professional experience, skills, knowledge and length of service, in order to maintain an appropriate range and balance of skills, experience and diversity of perspectives on the Board. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to our Board and the business needs of our Company from time to time. Our Board believes that such merit-based appointments will best enable our Company to serve the Shareholders and other stakeholders going forward.

Our Board comprises of seven members, including four executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including management and strategic development, finance and accounting experiences in addition to furniture business. Furthermore, our Board has a wide range of age, ranging from 39 years old to 59 years old, and comprises of one female Director and six male Directors. Our Directors consider that the current composition of the Board satisfies the principles under our board diversity policy.

We value gender diversity and will continue to take steps to promote gender diversity at all levels of our Company, in particular at the Board level. In addition, we are committed to providing career development and training opportunities for our staff who we consider have the suitable experience, skills and knowledge with an aim to promote them to senior management members or Directors. We will also ensure that there is gender diversity when recruiting our staff at mid to senior level so as to develop a pipeline of potential successors to our Board.

Our nomination committee is responsible for ensuring the diversity of our Board. After the Listing, our nomination committee will review our board diversity policy from time to time to ensure its continued effectiveness and we will disclose the implementation of board diversity policy in our corporate governance report on an annual basis.

BOARD COMMITTEES

The audit committee, remuneration committee, nomination committee, the corporate governance committee and risk management committee of our Company were approved to be established by resolutions passed by our Board on 2 December 2020. The membership of such committee are as follows:

Name of Director	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	Risk Management Committee
Executive Directors					
Mr. Zeng	—	—	Member	—	Chairman
Ms. Zeng ML	—	—	—	—	Member
Mr. Wu Runlu	—	—	—	—	—
Mr. Su	—	Member	—	Member	—
Independent non-executive Directors					
Mr. Suen To Wai	Chairman	Chairman	Member	Chairman	—
Mr. Lau Jing Yeung William	Member	Member	Chairman	Member	—
Mr. Gao Jianhua	Member	—	—	—	Member

The functions of the above five committees are summarised as follows:

Audit committee

Our Company has established an audit committee with written terms of reference in compliance with Code C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting, oversee the internal control and risk management systems of our Company. At present, our audit committee comprises Mr. Suen To Wai, Mr. Lau Jing Yeung William and Mr. Gao Jianhua, all being independent non-executive Director. Mr. Suen To Wai is the chairman of our audit committee.

Remuneration committee

Our Company has established a remuneration committee with written terms of reference in compliance with Code B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our remuneration committee are to make recommendation to our Board on the overall remuneration policy and structure relating to Directors and senior management of our Group and review performance based remuneration. At present, our remuneration committee comprises Mr. Suen To Wai, Mr. Lau Jing Yeung William and Mr. Su. Mr. Suen To Wai is the chairman of our remuneration committee.

Nomination committee

Our Company has established a nomination committee with written terms of reference in compliance with Code A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our nomination committee are to review the structure, size and composition (including the skills, knowledge and experiences) of the Board and to make recommendations to the Board on any proposed changes to the Board composition; to assess the independence of independent non-executive Director; to identify individual suitably qualified as potential Board members and to select or make recommendation to the Board regarding candidates to fill vacancies on our Board; and to make recommendations to the Board on the appointment and re-appointment of Directors and succession planning of the Directors. At present, our nomination committee comprises Mr. Suen To Wai, Mr. Lau Jing Yeung William and Mr. Zeng. Mr. Lau Jing Yeung William is the chairman of our nomination committee.

Corporate governance committee

Our Company has established a corporate governance committee with written terms of reference. The primary functions of our corporate governance committee are to introduce and propose relevant principles concerning corporate governance and to review and determine the corporate governance policy of our Group. At present, our corporate governance committee comprises Mr. Su, Mr. Suen To Wai and Mr. Lau Jing Yeung William. Mr. Suen To Wai is the chairman of our corporate governance committee.

Risk management committee

Our Company has established a risk management committee. The functions of our risk management committee are to monitor our exposure to sanctions risks and our implementation of the related internal control procedures. Please refer to the section headed "Business — Business Activities in Countries Subject to International Sanctions" for details. At present, our risk management committee comprises Mr. Zeng, Ms. Zeng ML and Mr. Gao Jianhua. Mr. Zeng is the chairman of our risk management committee.

COMPLIANCE ADVISER

We have appointed Elstone Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us, among others, at the following circumstances:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(3) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares, the possible development of a false market in our Shares, or any other matters.

The term of appointment of our compliance adviser shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 2 December 2020 under which certain selected classes of participants (including, among others, full-time employees) may be granted options to subscribe for new Shares. The principal terms of the Share Option Scheme are summarised in the section headed "Appendix V — Statutory and General Information — Other Information — 16. Share Option Scheme".

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Immediately following completion of the Global Offering and the Capitalisation Issue and without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme, we will be owned as to 73.125% by Pure Cypress, which is in turn wholly owned by Mr. Zeng. For the purpose of the Listing Rules, Pure Cypress and Mr. Zeng are the Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transactions between us and our Controlling Shareholders upon or shortly after the Listing.

We are capable of carrying on our business independently from and does not place undue reliance on our Controlling Shareholders, taking into consideration the following factors:

Operational independence

We had purchased particleboards from Hengda Wood, a company then controlled by Mr. Zeng, for our production use, which amounted to approximately RMB21.7 million for FY2017, representing approximately 1.1% of our total purchase for FY2017. We had ceased to purchase particleboards from Hengda Wood since April 2017, and to our knowledge, Mr. Zeng disposed his interest in Hengda Wood on 6 September 2018. Our Directors are of the view that the transactions with Hengda Wood was carried out on normal commercial terms and such terms were no less favourable to us than terms available to Independent Third Parties. Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had independent access to our customers and suppliers.

We have different departments to carry our business and operations, including research and development, production, procurement, sales and marketing, which will operate separately and independently from our Controlling Shareholders. We do not rely on referral of business opportunities from our Controlling Shareholders. Our management team has been and will be able to seek business opportunities for us. We hold all the production, operating facilities and technology necessary to our business operations. We have sufficient operational capacity in terms of capital, equipment and employees to operate our business independently of our Controlling Shareholders and their respective close associates (other than members of our Group). Our capability to operate independently from our Controlling Shareholders is not considered to be a concern.

Management independence

Our Board comprises four executive Directors and three independent non-executive Directors. Mr. Zeng, a Controlling Shareholder, is one of our executive Directors and the chairman of our Board.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his personal interest. Our independent non-executive Directors have extensive experience in different professions and they have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Directors believe that different background provides a balance of views and opinions. Please refer to the section headed "Directors and Senior Management" for details of the background of our Directors. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between us and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum of the relevant board meetings.

We have an independent senior management team to carry out our business decisions independently and to perform all essential management functions (such as operating our principal businesses, invoicing and billing and human resources) without unduly requiring the support of our Controlling Shareholders. Our Directors are satisfied that our senior management team is able to perform their roles in our Group independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

Financial independence

During the Track Record Period and up to the Latest Practicable Date, we had independent financial and accounting and internal control systems, independent treasury function for receiving cash and making payments, and we had independent access to third party financing. We are capable of making financial decisions according to our own business needs. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders and their respective close associates after Listing.

To meet our working capital requirements, we had bank loans of approximately RMB856.8 million, RMB682.7 million, RMB594.0 million and RMB573.0 million as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. Some of our bank loans as at 31 December 2017, 2018 and 2019 and 30 June 2020 were secured by corporate guarantees given by a company which was controlled by Mr. Zeng prior to September 2018 or personal guarantee given by our executive Director, Mr. Zeng and his close family members, which included Ms. Zeng RH and Ms. Zeng ML. All the guarantees and/or pledges (if any) given by the related parties of our Company will be released before or upon Listing.

Amounts due to our Controlling Shareholders, their respective associates and/or related parties to our Group amounted to approximately RMB35.7 million, nil, nil and RMB0.4 million as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. Such amounts due was non-trade nature, unsecured, interest-free and repayable on demand.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had not provided any loans to, nor given any guarantee, security or pledge for, our Controlling Shareholders, our Directors or their respective associates, and none of our Directors or any of their respective associates had provided any personal guarantee, security or pledge for any of our banking facilities and other borrowings.

Save as aforesaid, we do not rely on our Controlling Shareholders and/or their respective close associates by virtue of their provision of financial assistance.

RULE 8.10 OF THE LISTING RULES

None of our Controlling Shareholders and our Directors has any interest in a business apart from our business which competes or is likely to compete, directly or indirectly, with our business, and would require disclosure under Rule 8.10 of the Listing Rules.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders has confirmed that none of them or their respective associates (other than our Group) is engaged in, or interested in any business (other than that of our Group) which, directly or indirectly, competes or may compete with our business or has or may have any conflict of interest with us. To avoid any actual or potential competition between us and our Controlling Shareholders, our Controlling Shareholders have given non-compete undertakings in our favour under the Deed of Non-competition, pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken to our Company on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective associates (other than our Group) shall:

(i) save for the Excluded Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business currently and from time to time engaged by us (the "**Restricted Business**") including but not limited to the manufacture and sales of furniture products and other relevant products of our Group from time to time (the "**Restricted Products**");

(ii) not solicit any of our existing or then existing employee for employment by them or their respective associates (excluding our Group);

(iii) not, without the consent from our Company, make use of any information pertaining to our business which may have come to their knowledge in their capacity as our Controlling Shareholder and/or Directors for the purpose of competing with the Restricted Business; and

(iv) in respect of any order undertaken or proposed to be undertaken by them or their respective associates (excluding our Group) involving design, development, production and sales of any Restricted Products, unconditionally use reasonable endeavours to procure that such customer(s) to appoint or contract directly with any member of our Group for the design, development, production and sales of the Restricted Products under the relevant order.

For the above purpose:

(A) the "Relevant Period" means the period commencing from the Listing Date and shall expire upon the earliest date of occurrence of the events below:

(a) the date on which the relevant Controlling Shareholder (individually) cease to be a controlling shareholder of our Company for the purpose of the Listing Rules;

(b) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange;

(B) the "Excluded Business" means:

(a) any direct or indirect investments of the relevant Controlling Shareholder and/or their close associates (excluding our Group) in any member of our Group; or

(b) any direct or indirect investments of any Controlling Shareholders and/or their close associates (excluding our Group) in the manufacture and sales of the Restricted Products outside the PRC whereby (i) the aggregate investment by such Controlling Shareholder and/or his/its close associates in the business shall not exceed 30% of the entire economic interests in that business; and (ii) none of such Controlling Shareholder and/or his/its close associates will be involved in the operation and management of that business; or

(c) any direct or indirect investments of any Controlling Shareholders and/or their close associates (excluding our Group) in shares of a publicly listed company (other than members of our Group) whereby (i) the aggregate interests held by such Controlling Shareholder and/or his/its close associates shall not exceed 5% of the entire issued shares of that company; (ii) such Controlling Shareholder and/or his/its close associates (individually or collectively) is not the single largest shareholder or equity holder of that company; and (iii) none of such Controlling Shareholder and/or his/its close associates has been or will be involved in the operation and management of that company and/or its business.

Each of our Controlling Shareholders has undertaken under the Deed of Non-competition that he or it shall, and procure his/its respective associates (other than our Group) to, provide to us and our Directors from time to time all information necessary for annual review by our independent non-executive Director with regard to compliance with the terms of the Deed of Non-competition by our Controlling Shareholders. Each of our Controlling Shareholders has also undertaken to make an annual declaration as to compliance with the terms of the Deed of Non-competition in our annual report.

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to the compliance and enforcement of the Deed of Non-competition, we have adopted the following corporate governance measures:

(i) our independent non-executive Director shall review, at least on an annual basis, the compliance and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholders;

(ii) we will disclose any decisions on matters reviewed by our independent non-executive Director relating to the compliance and enforcement of the Deed of Non-competition either through our annual report or by way of announcement;

(iii) we will disclose in the corporate governance report of our annual report on how the terms of the Deed of Non-competition have been complied with and enforced; and

(iv) in the event that any of our Directors and/or their respective close associates has material interest in any matter to be deliberated by our Board in relation to the compliance and enforcement of the Deed of Non-competition, he/she may physically absent himself from the relevant board meetings of our Company in respect of such transactions unless such interested Director is required to be present by resolution of the remaining disinterested Directors, and he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective close associates and us and to protect the interests of our Shareholders, in particular, the minority Shareholders.

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue (but without taking account of any Shares which may be taken up under the Global Offering and without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Long position in the Shares of our company

Name	Nature of interest	Number of Shares held as at the Latest Practicable Date	Number of Shares held immediately after the Capitalisation Issue and Global Offering	Percentage of shareholding in our Company as at the Latest Practicable Date	Percentage of shareholding in our Company immediately after the Capitalisation Issue and Global Offering
Pure Cypress *(Note 1)*	Beneficial owner	97,500	2,193,750,000	97.5%	73.125%
Mr. Zeng	Interest of a controlled corporation	97,500	2,193,750,000	97.5%	73.125%
Ms. Zeng RH *(Note 2)*	Interest of spouse	97,500	2,193,750,000	97.5%	73.125%

Notes:

1. Pure Cypress is wholly owned by Mr. Zeng. Under the SFO, Mr. Zeng is deemed to be interested in the Shares beneficially owned by Pure Cypress.

2. Ms. Zeng RH is the spouse of Mr. Zeng. Under the SFO, Ms. Zeng RH is taken to be interested in the same number of Shares in which Mr. Zeng is interested.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking into account Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

The authorised and issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue will be as follows:

Authorised share capital:		*HK$*
10,000,000,000	Shares of HK$0.10 each	1,000,000,000

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue will be as follows:

Issued and to be issued, fully paid or credited as fully paid:

100,000	Shares in issue as at the date of this prospectus	10,000
2,249,900,000	Shares to be issued pursuant to the Capitalisation Issue	224,990,000
750,000,000	Shares to be issued pursuant to the Global Offering	75,000,000
3,000,000,000	**Shares**	**300,000,000**

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately following the completion of the Global Offering and the Capitalisation Issue will be as follows:

Issued and to be issued, fully paid or credited as fully paid:

100,000	Shares in issue as at the date of this prospectus	10,000
2,249,900,000	Shares to be issued pursuant to the Capitalisation Issue	224,990,000
750,000,000	Shares to be issued pursuant to the Global Offering	75,000,000
112,500,000	Shares to be issued if the Over-allotment Option is exercised in full	11,250,000
3,112,500,000	**Shares**	**311,250,000**

Assumptions

The above table assumes that the Global Offering becomes unconditional and is completed in accordance with the relevant terms and conditions, and the issue of Shares pursuant to the Global Offering and the Capitalisation Issue as described herein. It takes no account of any Shares (i) which may be allotted and issued upon the exercise of the options which may be granted under the Share Option Scheme; and (ii) which may be allotted, issued or repurchased by our Company pursuant to the general mandates granted to our Directors for the allotment and issue of Share and the repurchase of Shares as referred to below or otherwise.

Ranking

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects will all the existing Shares in issue or to be issued as set out in the above table, and will qualify for all dividends or other distributions declared, made or paid on, or any other rights and benefits attaching to or accruing from, the Shares thereafter except for the Capitalisation Issue.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Islands Companies Law and the terms of our Memorandum and Articles of Association, our Company may from time to time by ordinary resolution of our Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce its share capital by special resolution of our Shareholders. For more details, please refer to the section headed "Appendix IV — Summary of the Constitution of our Company and Cayman Islands Company Law — 2 Articles of Association — (c) Alterations of capital."

Pursuant to the terms of our Memorandum and Articles of Association, if at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Cayman Islands Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. For more details, please refer to the section headed "Appendix IV — Summary of the Constitution of Our Company and Cayman Islands Company Law — 2 Articles of Association — (d) Variation of rights of existing shares or classes of shares."

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted the general unconditional mandate to allot, issue and deal in a total number of Shares of not more than the aggregate of:

(i) 20% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue, but excluding any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme; and

(ii) the total number of our Shares repurchased by our Company (if any) pursuant to the Repurchase Mandate (as mentioned below).

The general unconditional mandate does not apply to situations where our Directors allot, issue or deal in Shares by way of a rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares, or pursuant to the exercise of any options that may be granted under the Share Option Scheme, or under the Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option. Our Directors may, in addition to the Shares which they are authorised to issue under the general unconditional mandate, allot, issue and deal in Shares pursuant to a rights issue, the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or the exercise of any options that may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The general unconditional mandate will expire upon the earliest occurrence of any of the following:

- at the conclusion of our next annual general meeting;
- on the date by which our next annual general meeting is required by the Articles or any applicable laws to be held; or
- when the authority given to our Directors is revoked or varied by an ordinary resolution passed by our Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed "Appendix V — Statutory and General Information — Further Information about Our Company — 3. Resolutions in writing of our Shareholders passed on 2 December 2020".

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted the Repurchase Mandate to exercise all the powers of our Company to repurchase Shares with an aggregate number of Shares of not more than 10% of the aggregate number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue, but excluding any Shares that may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme.

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant requirements under the Listing Rules is set out in the section headed "Appendix V — Statutory and General Information — Further Information About our Company — 7. Repurchase by our Company of our own securities".

The Repurchase Mandate will expire upon the earliest occurrence of any of the following:

- at the conclusion of our next annual general meeting;
- on the date by which our next annual general meeting is required by the Articles or any applicable laws to be held; or
- when the authority given to our Directors is revoked or varied by an ordinary resolution passed by our Shareholders in general meeting.

For further details of the Repurchase Mandate, please refer to the section headed "Appendix V — Statutory and General Information — Further Information about our Company — 3. Resolutions in writing of our Shareholders passed on 2 December 2020".

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Details of the principle terms of the Share Option Scheme are summarised in the section headed "Appendix V — Statutory and General Information — Other Information — 16. Share Option Scheme".

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (the "**Cornerstone Investment Agreements**" and each a "**Cornerstone Investment Agreement**") with certain investors (the "**Cornerstone Investors**" and each a "**Cornerstone Investor**"), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, subscribe for such number of Offer Shares in aggregate (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased at an aggregate amount equivalent to approximately HK$621.2 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) (the "**Cornerstone Placing**") at the Offer Price.

The information about the number of the Offers Shares to be subscribed for by all the Cornerstone Investors based on (a) the subscription price payable by each of the Cornerstone Investors and subject to the rounding down to the nearest board lot of 2,000 Shares, and (b) the assumption of the following Offer Price, is set out below:

Approximate aggregate investment amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) in Hong Kong dollar equivalent *(Note 1)*	**Offer Price**	**Number of Offer Shares to be subscribed**	**Approximate percentage of the Offer Shares under the Global Offering assuming the Over-allotment Option is not exercised**	**Approximate percentage of the Shares in issue assuming the Over-allotment Option is not exercised** *(Note 2)*	**Approximate percentage of the Shares in issue assuming the Over-allotment Option is exercised in full** *(Note 2)*
HK$621.2 million	*(HK$)*				
	1.57 (being the low end of the Offer Price range set out in this prospectus)	395,682,000	52.8%	13.2%	12.7%
	1.715 (being the mid-point of the Offer Price range set out in this prospectus)	362,228,000	48.3%	12.1%	11.6%
	1.86 (being the high end of the Offer Price range set out in this prospectus)	333,988,000	44.5%	11.1%	10.7%

Notes:

1. Calculated based on an exchange rate of RMB1.00 to HK$1.1833 and US$1.00 = HK$7.7508 as described in the section headed "Information About this Prospectus and the Global Offering — Exchange Rate Conversion" in this prospectus. The actual investment amount of each Cornerstone Investor may change due to the actual exchange rate to be used as prescribed in the relevant Cornerstone Investment Agreement. Pursuant to each of the Cornerstone Investment Agreements, the Hong Kong dollars equivalent of the investment amount should be calculated at the exchange rate published by Reuters after the close of business as at the Price Determination Date.

2. Immediately following completion of the Global Offering and the Capitalisation Issue, without taking into account any Shares which may be granted under the Share Option Scheme.

Each of the Cornerstone Investors has agreed that, in the event that the requirements pursuant to Rules 8.08(1) and 8.08(3) of the Listing Rules, which require that (i) at least 25% of our Shares must at all times be held by the public; and (ii) no more than 50% of our Shares in public hands at the time of listing can be beneficially owned by the three largest public Shareholders, cannot be satisfied by our Company, the Sole Global Coordinator and our Company have the right to adjust the allocation of the number of Offer Shares to be purchased by the Cornerstone Investor in their sole and absolute discretion to satisfy the requirements under Rules 8.08(1) and 8.08(3) of the Listing Rules.

The Cornerstone Placing forms part of the International Offering. The total number of Offer Shares to be subscribed for by the Cornerstone Investors might be affected by the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of oversubscription under the Hong Kong Public Offering as described in the section headed "Structure and Conditions of the Global Offering — The Hong Kong Public Offering — Reallocation".

In respect of the Cornerstone Placing of Lead Capital (as defined below), in the event of a reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering pursuant to an over-subscription under the Hong Kong Public Offering, the Sole Global Coordinator and our Company may jointly determine, in their absolute discretion, the adjustments to be made to the number of Offer Shares to be subscribed for by such Cornerstone Investor, provided that the number of Offer Shares to be subscribed for by such Cornerstone Investor shall not in any event (i) exceed the number so calculated pursuant to its Cornerstone Investment Agreement; or (ii) be lower than such number equals to Hong Kong dollars equivalent of US$3,000,000 divided by the Offer Price, rounded down to the nearest whole board lot of 2,000 Shares. The adjustments among all the other Cornerstone Investors need not be made on a pro rata basis.

In respect of the Cornerstone Placing of Stellar Global (as defined below), in the event of a reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering pursuant to an over-subscription under the Hong Kong Public Offering, the Sole Global Coordinator and our Company may jointly determine, in their absolute discretion, the adjustments to be made to the number of Offer Shares to be subscribed for by such Cornerstone Investor, provided that the number of Offer Shares to be subscribed for by such Cornerstone Investor shall not in any event (i) exceed the number so calculated pursuant to its Cornerstone Investment Agreement; or (ii) be lower than such number equals to Hong Kong dollars equivalent of US$2,000,000 divided by the Offer Price, rounded down to the nearest whole board lot of 2,000 Shares. The adjustments among all the other Cornerstone Investors need not be made on a pro rata basis.

In respect of the Cornerstone Placing of Capital Investment, Ganzhou Huashun, Ganzhou Development Group, Longnan Investment and Nankang Development Group (all as defined below), the total number of Offer Shares to be subscribed for by such Cornerstone Investors shall not be subject to reallocation to the Hong Kong Public Offering even if there should arise an over-subscription under the Hong Kong Public Offering.

Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allocation results announcement to be issued by our Company on or around 28 December 2020.

Pursuant to the respective Cornerstone Investment Agreements, each Cornerstone Investor (i) shall be obliged to make full payment of their respective investment amounts on or before 8:00 am on the Listing Date; and (ii) has agreed that the Sole Global Coordinator may, in its absolute discretion, defer the delivery of all or part of the Offer Shares that the Cornerstone Investors have subscribed for to a date later than the Listing Date, but no later than three business days following the last day on which Over-allotment Option may be exercised.

To the best of our knowledge, (i) each of the Cornerstone Investors and their respective ultimate beneficial owners is an Independent Third Party and not an existing Shareholder of our Company; (ii) none of the Cornerstone Investors is accustomed to take instructions from our Company, Directors, chief executive, controlling Shareholders, substantial Shareholders or existing Shareholders or any of our subsidiaries or their respective close associates; and (iii) none of the subscription of Offer Shares under the Cornerstone Placing is financed by our Company, Directors, chief executive, controlling Shareholders, substantial Shareholders or existing Shareholders or any of our subsidiaries or their respective close associates. Save for Ganzhou Huashun and Ganzhou Development Group (all as defined below) in which both are ultimately wholly owned by State-owned Assets Supervision and Administration Commission of Ganzhou* (贛州市國有資產監督管理委員會), to the best of our knowledge, each of the Cornerstone Investors is independent from each other. The Offer Shares to be subscribed for by the Cornerstone Investors will be counted as part of the public float after the Listing for the purpose of Rule 8.08 of the Listing Rules and will rank *pari passu* with the Shares then in issue and to be listed on the Stock Exchange. Other than the subscription pursuant to the Cornerstone Investment Agreements, the Cornerstone Investors have agreed not to, and to procure their respective associates not to, subscribe for any Offer Shares under the Global Offering except where the Cornerstone Investors or their respective associates act as a nominee for their respective customers. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any Board representation in our Company, nor will any of them become our substantial shareholder, connected person or close associate.

THE CORNERSTONE INVESTORS

We have entered into Cornerstone Investment Agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing. Set forth below is a brief introduction of the Cornerstone Investors, which was provided by the Cornerstone Investors in connection with the Cornerstone Placing.

Capital Investment

Capital Investment LLC ("**Capital Investment**") is a company incorporated in United Arab Emirates which is controlled by Abu Dhabi Capital LLC. Capital Investment is a private institutional investment house based in Abu Dhabi, United Arab Emirates and has investments across various classes of assets, industries and geographies. Capital Investment also manages in-house well-diversified portfolios in global listed equities, fixed income and alternative investments. In addition, it has substantial private equity investments and real estate spreading across different sectors.

Ganzhou Huashun

Ganzhou Huashun Industry and Trade Co., Ltd* (贛州市華順工貿有限公司) ("**Ganzhou Huashun**"), a limited liability company established in the PRC in January 2005, is ultimately wholly owned by State-owned Assets Supervision and Administration Commission of Ganzhou* (贛州市國有資產監督管理委員會). It is principally engaged in the management and investment of state-owned assets. Ganzhou Huashun has agreed to cause a trust manager that is a qualified domestic institutional investor ("**QDII**") to subscribe on its behalf at the Offer Price for the Offer Shares pursuant to the relevant Cornerstone Investment Agreement.

Ganzhou Development Group

Ganzhou Development Investment Holdings Group Co., Ltd.* (贛州發展投資控股集團有限責任公司) ("**Ganzhou Development Group**"), a limited liability company established in the PRC in July 1991, is wholly owned by State-owned Assets Supervision and Administration Commission of Ganzhou* (贛州市國有資產監督管理委員會). It is principally engaged in the management and investment of state-owned assets and investment in urban infrastructure, transportation and energy sector. Ganzhou

Development Group has agreed to cause a trust manager that is a QDII to subscribe on its behalf at the Offer Price for the Offer Shares pursuant to the relevant Cornerstone Investment Agreement.

Lead Capital

Lead Capital Fund III, L.P. ("**Lead Capital**") is an exempted limited partnership registered in the Cayman Islands and principally engaged in investment in overseas assets such as bonds, stocks and other financial products. Lead Capital is ultimately controlled by Li Zhuoqiong.

Longnan Investment

Longnan Economic and Technological Development Zone Construction and Investment Co., Ltd* (龍南經濟技術開發區建設投資有限公司) ("**Longnan Investment**"), a limited liability company established in the PRC in August 2009. Longnan Investment is owned as to 40% by Longnan State-owned Assets Management Centre* (龍南市國有資產管理中心) and 60% by Longnan Economic and Technological Development Zone Management Committee* (龍南經濟技術開發區管理委員會).

Longnan Investment is principally engaged in construction of infrastructure and exploitation, sale and investment of mineral resources. Its main business objectives include, among others, broadening and diversifying the investment and financing channels in Longnan. Longnan Investment has agreed to cause a trust manager that is a QDII to subscribe on its behalf at the Offer Price for the Offer Shares pursuant to the relevant Cornerstone Investment Agreement.

Nankang Development Group

Ganzhou City Nankang District Urban Construction Development Group Co., Ltd* (贛州市南康區城市建設發展集團有限公司) ("**Nankang Development Group**"), a limited liability company established in the PRC in November 2011, is wholly owned by State-owned Assets Supervision and Administration Office of Nankang District, Ganzhou* (贛州市南康區國有資產監督管理辦公室). Nankang Development Group is principally engaged in the financing, investment and construction of urban infrastructure and related projects. Its main business objectives include, among others, promote the urban planning and the construction of infrastructure, and investment and financing in the Nankang District. Nankang Development Group has agreed to cause a trust manager that is a qualified domestic institutional investor to subscribe on its behalf at the Offer Price for such number of Offer Shares.

Stellar Global

Stellar Global Fund SPC — Stellar Global Fund 1 SP ("**Stellar Global**") is a segregated portfolio of Stellar Global Fund SPC, which is in turn owned and managed by Stellar Capital Pte. Ltd. ("**Stellar Capital**") and principally engaged in investment. Stellar Capital was established in Singapore and is a registered fund management company with the Monetary Authority of Singapore. As a global macro hedge fund management company, Stellar Capital diversifies its investment in different regions with various financial products.

Assuming that the final Offer Price is fixed at HK$1.57 (being the low end of the Offer Price range set out in this prospectus) and based on the actual total subscription price as stated in the relevant Cornerstone Investment Agreement and subject to the rounding down to the nearest whole board lot of 2,000 Shares, the information about the relevant Offer Shares to be subscribed for by each Cornerstone Investor is set out below:

Cornerstone Investor	Investment amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee)	Hong Kong dollar equivalent *(approximate)* *(Note 1)*	Number of Offer Shares to be subscribed	Approximate percentage of the Offer Shares under the Global Offering assuming the Over-allotment Option is not exercised	Approximate percentage of the Shares in issue assuming the Over-allotment Option is not exercised *(Note 2)*	Approximate percentage of the Shares in issue assuming the Over-allotment Option is exercised in full *(Note 2)*
Capital Investment	US$10.0 million	HK$77.5 million	49,368,000	6.6%	1.7%	1.6%
Ganzhou Huashun	RMB40.0 million	HK$47.3 million	30,146,000	4.0%	1.0%	1.0%
Ganzhou Development Group	RMB60.0 million	HK$71.0 million	45,220,000	6.0%	1.5%	1.4%
Lead Capital	US$7.0 million	HK$54.3 million	34,556,000	4.6%	1.1%	1.1%
Longnan Investment	RMB100.0 million	HK$118.3 million	75,368,000	10.1%	2.5%	2.4%
Nankang Development Group	RMB194.0 million	HK$229.5 million	146,214,000	19.5%	4.9%	4.7%
Stellar Global	US$3.0 million	HK$23.3 million	14,810,000	2.0%	0.5%	0.5%
Total		**HK$621.2 million**	**395,682,000**	**52.8%**	**13.2%**	**12.7%**

Notes:

1. Calculated based on an exchange rate of RMB1.00 to HK$1.1833 and US$1.00 = HK$7.7508 as described in the section headed "Information about this Prospectus and the Global Offering — Exchange Rate Conversion" in this prospectus. The actual investment amount of each Cornerstone Investor may change due to the actual exchange rate to be used as prescribed in the relevant Cornerstone Investment Agreement. Pursuant to each of the Cornerstone Investment Agreements, the Hong Kong dollars equivalent of the investment amount should be calculated at the exchange rate published by Reuters after the close of business as at the Price Determination Date.

2. Immediately following completion of the Global Offering and the Capitalisation Issue, without taking into account any Shares which may be granted under the Share Option Scheme.

Assuming that the final Offer Price is fixed at HK$1.715 (being the mid-point of the Offer Price range set out in this prospectus) and based on the actual total subscription price as stated in the relevant Cornerstone Investment Agreement and subject to the rounding down to the nearest whole board lot of 2,000 Shares, the information about the relevant Offer Shares to be subscribed for by each Cornerstone Investor is set out below:

Cornerstone Investor	Investment amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee)	Hong Kong dollar equivalent *(approximate)* *(Note 1)*	Number of Offer Shares to be subscribed	Approximate percentage of the Offer Shares under the Global Offering assuming the Over-allotment Option is not exercised	Approximate percentage of the Shares in issue assuming the Over-allotment Option is not exercised *(Note 2)*	Approximate percentage of the Shares in issue assuming the Over-allotment Option is exercised in full *(Note 2)*
Capital Investment	US$10.0 million	HK$77.5 million	45,194,000	6.0%	1.5%	1.5%
Ganzhou Huashun	RMB40.0 million	HK$47.3 million	27,598,000	3.7%	0.9%	0.9%
Ganzhou Development Group	RMB60.0 million	HK$71.0 million	41,396,000	5.5%	1.4%	1.3%
Lead Capital	US$7.0 million	HK$54.3 million	31,634,000	4.2%	1.0%	1.0%
Longnan Investment	RMB100.0 million	HK$118.3 million	68,996,000	9.2%	2.3%	2.2%
Nankang Development Group	RMB194.0 million	HK$229.5 million	133,852,000	17.9%	4.5%	4.3%
Stellar Global	US$3.0 million	HK$23.3 million	13,558,000	1.8%	0.5%	0.4%
Total		**HK$621.2 million**	**362,228,000**	**48.3%**	**12.1%**	**11.6%**

Notes:

1. Calculated based on an exchange rate of RMB1.00 to HK$1.1833 and US$1.00 = HK$7.7508 as described in the section headed "Information about this Prospectus and the Global Offering — Exchange Rate Conversion" in this prospectus. The actual investment amount of each Cornerstone Investor may change due to the actual exchange rate to be used as prescribed in the relevant Cornerstone Investment Agreement. Pursuant to each of the Cornerstone Investment Agreements, the Hong Kong dollars equivalent of the investment amount should be calculated at the exchange rate published by Reuters after the close of business as at the Price Determination Date.

2. Immediately following completion of the Global Offering and the Capitalisation Issue, without taking into account any Shares which may be granted under the Share Option Scheme.

Assuming that the final Offer Price is fixed at HK$1.86 (being the high end of the Offer Price range set out in this prospectus) and based on the actual total subscription price as stated in the relevant Cornerstone Investment Agreement and subject to the rounding down to the nearest whole board lot of 2,000 Shares, the information about the relevant Offer Shares to be subscribed for by each Cornerstone Investor is set out below:

Cornerstone Investor	Investment amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee)	Hong Kong dollar equivalent *(approximate)* *(Note 1)*	Number of Offer Shares to be subscribed	Approximate percentage of the Offer Shares under the Global Offering assuming the Over-allotment Option is not exercised	Approximate percentage of the Shares in issue assuming the Over-allotment Option is not exercised *(Note 2)*	Approximate percentage of the Shares in issue assuming the Over-allotment Option is exercised in full *(Note 2)*
Capital Investment	US$10.0 million	HK$77.5 million	41,670,000	5.5%	1.4%	1.4%
Ganzhou Huashun	RMB40.0 million	HK$47.3 million	25,446,000	3.4%	0.8%	0.8%
Ganzhou Development Group	RMB60.0 million	HK$71.0 million	38,170,000	5.1%	1.3%	1.2%
Lead Capital	US$7.0 million	HK$54.3 million	29,168,000	3.9%	1.0%	0.9%
Longnan Investment	RMB100.0 million	HK$118.3 million	63,616,000	8.5%	2.1%	2.0%
Nankang Development Group	RMB194.0 million	HK$229.5 million	123,418,000	16.4%	4.1%	4.0%
Stellar Global	US$3.0 million	HK$23.3 million	12,500,000	1.7%	0.4%	0.4%
Total		**HK$621.2 million**	**333,988,000**	**44.5%**	**11.1%**	**10.7%**

Notes:

1. Calculated based on an exchange rate of RMB1.00 to HK$1.1833 and US$1.00 = HK$7.7508 as described in the section headed "Information about this Prospectus and the Global Offering — Exchange Rate Conversion" in this prospectus. The actual investment amount of each Cornerstone Investor may change due to the actual exchange rate to be used as prescribed in the relevant Cornerstone Investment Agreement. Pursuant to each of the Cornerstone Investment Agreements, the Hong Kong dollars equivalent of the investment amount should be calculated at the exchange rate published by Reuters after the close of business as at the Price Determination Date.

2. Immediately following completion of the Global Offering and the Capitalisation Issue, without taking into account any Shares which may be granted under the Share Option Scheme.

CONDITIONS PRECEDENT

The subscription obligation of each of the Cornerstone Investors is subject to the following conditions precedent:

(a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto) by no later than the time and date as specified in those underwriting agreements;

(b) none of the Hong Kong Underwriting Agreement and International Underwriting Agreement having been terminated;

(c) the Listing Committee having granted the approval for the listing of, and permission to deal in, the Shares on the Main Board of the Stock Exchange and such approval or permission not having been revoked;

(d) no laws or regulations shall have been enacted or promulgated by any government authority which prohibit the consummation of the closing of the transactions contemplated under the respective Cornerstone Investment Agreements, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such closing;

(e) the respective representations, warranties, undertakings and confirmations of the relevant Cornerstone Investor and our Company under the respective Cornerstone Investment Agreements being accurate, complete, true and not misleading in any material respects, and there being no breach of the respective Cornerstone Investment Agreement on the part of the relevant Cornerstone Investor or our Company; and

(f) the Offer Price having been agreed upon between the Company and Sole Global Coordinator (for itself and on behalf of the Underwriters).

RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has undertaken and agreed that without the prior written consent of our Company and the Sole Global Coordinator, it shall not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the "**Lock-up Period**") (i) dispose of either conditionally or unconditionally, any legal or beneficial interests in any of the Offer Shares to be subscribed by the Cornerstone Investor pursuant to the respective Cornerstone Investment Agreements and any Shares or other securities of the Company which are derived therefrom pursuant to any rights issue, capitalisation issue or other form of capital reorganisation of our Company ("**Relevant Shares**"), or any interest in any company or entity holding (directly or indirectly) any of the Relevant Shares or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive, Relevant Shares; (ii) enter into any transactions, directly or indirectly, with the same economic effect as any such transaction described in (i) above; or (iii) agree or contract to, or publicly announce any intention to enter into any such transaction described in (i) and (ii) above.

After the Lock-up Period, the Cornerstone Investors can dispose of any of the Relevant Shares provided that it shall first notify and consult our Company and the Sole Global Coordinator in writing prior to the disposal of any Relevant Shares and the Cornerstone Investor shall take all reasonable steps to ensure that such transaction will not create a disorderly or false market of the Shares and will be in compliance with all applicable laws and regulations including but not limited to the Listing Rules and the SFO.

You should read the following discussion and analysis on our results of operations and financial condition together with the Accountants' Report and the unaudited pro forma financial information included in Appendix II. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from anticipation. For additional information regarding risks and uncertainties involved, please refer to the section headed "Risk Factors".

OVERVIEW

We are a manufacturer of furniture products in the PRC with a primary focus on the manufacture and sales of panel furniture by way of ODM. During the Track Record Period, over 65% of our revenue from our furniture products was generated from our ODM business and the remaining was generated from our OEM business. All of the products we produced for sales during the Track Record Period were not under our own brands. Our vertically integrated business model allows us to combine our in-house product design and development expertise with our integrated manufacturing platform, providing full range services covering product design and development, manufacture and sales of panel furniture, and securing stable supply of our principal production materials, i.e., particleboards and steel tubes by manufacturing them on our own. We offer comprehensive manufacturing solution to our customers, with the capabilities to design, develop and manufacture functional and economical panel furniture, upholstered furniture, and other furniture such as outdoor furniture and sports and recreational equipment. We believe that this allows us to be more responsive to changes in consumer preferences, to save our customers' costs in product developments, and to secure continuing orders from customers for our own developed products. We were the largest panel furniture exporter in terms of export value in the PRC in 2019. According to the F&S Report, we held a market share of the panel furniture export market in the PRC of approximately 3.92% in 2019. The panel furniture export market in the PRC is highly fragmented. In 2019, the aggregated export value of the top five panel furniture exporters in the PRC accounted for only approximately 5.73% market share of PRC's total panel furniture exported. During the Track Record Period, panel furniture was our major product and sales of which contributed approximately 99.9%, 95.5%, 93.7% and 92.0% of our revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020. Based on our customers' feedback of their potential demand on such products, we have started commercial production of upholstered furniture, outdoor furniture and sports and recreational equipment since 2017. During the Track Record Period, our furniture products were mainly sold to the U.S. market on wholesale basis, including overseas retail chains directly or through our customers which were furniture traders. Walmart is one of our major customers of our furniture products. During the Track Record Period, Walmart contributed approximately 19.8%, 22.0%, 23.9% and 24.1% of our revenue for each of the FY2017, FY2018, FY2019 and 6MFY2020.

Our furniture products are primarily fast-moving consumer goods which are manufactured and packaged as ready-to-assemble furniture, or RTA furniture. Our products are either designed by our R&D department or based on designs provided to us by our customers which are then manufactured, packaged and sold to customers in the form of separate components, with instructions for users to assemble the furniture themselves with simple tools.

We have experienced steady growth in our revenue and profit over the FY2017, FY2018 and FY2019. The following table sets forth our revenue and profit for the year/period during the Track Record Period:

	FY2017	**FY2018**	**FY2019**	**6MFY2019**	**6MFY2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Revenue	2,823,880	3,327,221	3,719,066	1,753,025	1,630,742
Profit for the year/period	334,781	385,464	568,303	253,489	239,195

Non-HKFRS measures:

The Adjusted Net Profit, which is unaudited in nature, represents profit excluding the effects of gain on disposal of subsidiaries, imputed interest expenses on puttable shares, listing expense and equity-settled share-based payment. The Adjusted Net Profit is not a measure of performance under HKFRS. As a non-HKFRS measure, the Adjusted Net Profit is presented because our management believes such information will be helpful for investors in assessing the level of our net profit by eliminating the effects of certain one-off or non-recurring items. We have added back, among others, the imputed interest expenses on puttable shares and the equity-settled share-based payment in the reconciliation mainly because they are non-recurring in nature and they do not actually have cash outflow.

The imputed interest expenses on puttable shares arose from the transactions under the Investment Agreements in 2017. Based on the terms and conditions of the Investment Agreements (as supplemented by the Supplemental Shareholders' Agreement), particularly the Put Option granted to Shanghai Huarong pursuant to which Shanghai Huarong may request our Group to purchase all or part of the 6.54% equity interest of Huiming Wood then held by Shanghai Huarong, it was considered that the transactions were of the nature of a financial liability of our Group pursuant to HKFRS 9 (Financial Instruments) and thereby leading to the incurrence of imputed interest expenses. The redemption amount of the financial liability at initial recognition was calculated with reference to the principal amount of investment by Shanghai Huarong plus an annual investment return of 13% pursuant to the Shareholders' Agreement. The amount of the financial liability was subsequently increased at each financial year/period end with reference to the accrued interest expenses payable to Shanghai Huarong. Following the completion of the Purchase in February 2019, Shanghai Huarong ceased to have any shareholdings or interests in our Group, and no further imputed interest expense would arise from such investment. For details of the investment of Shanghai Huarong, please refer to the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood". Given that the investment of Shanghai Huarong was made in contemplation of the PRC Listing, it was considered that the imputed interest expenses were not related to or arising from our ordinary course of business and therefore non-recurring in nature.

The equity-settled share-based payment represents the cost of the Transferred Shares by Pure Cypress to Vantage Link, in recognition of and reward to Mr. Su for his contribution to, among others, the Listing, accordingly, such payment was not arising from our ordinary course of business and therefore non-recurring expenses in nature. For further details of transfer of the Transferred Shares to Vantage Link, please refer to the section headed "History, Reorganisation and Corporate Structure — Pre-IPO Investment".

The use of the Adjusted Net Profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year/period. Below is a table that reconciles our Adjusted Net Profit for the year/period presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS, which is profit for the year/period:

	FY2017	**FY2018**	**FY2019**	**6MFY2019**	**6MFY2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit for the year/period	334,781	385,464	568,303	253,489	239,195
Less: Gain on disposal of subsidiaries	(1,008)	—	—	—	—
Add:					
— Imputed interest expenses on puttable shares	42,633	44,825	3,268	3,268	—
— Listing expenses	359	11,154	10,097	5,064	1,906
— Equity-settled share-based payment	—	92,425	—	—	—
Adjusted Net Profit	376,765	533,868	581,668	261,821	241,101

Our revenue increased from approximately RMB2,823.9 million for the FY2017 to approximately RMB3,719.1 million for the FY2019, representing a CAGR of approximately 14.8%. Our revenue decreased by approximately RMB122.3 million, or 7.0% from approximately RMB1,753.0 million for the 6MFY2019 to approximately RMB1,630.7 million for the 6MFY2020.

Our Adjusted Net Profit increased from approximately RMB376.8 million for the FY2017 to approximately RMB581.7 million for the FY2019, representing a CAGR of approximately 24.3%. Our Adjusted Net Profit decreased by approximately RMB20.7 million, or 7.9% from approximately RMB261.8 million for the 6MFY2019 to approximately RMB241.1 million for the 6MFY2020. Our profit for the year increased from approximately RMB334.8 million for the FY2017 to approximately RMB568.3 million for the FY2019, representing a CAGR of approximately 30.3%. Our profit for the period decreased by approximately RMB14.3 million, or 5.6% from approximately RMB253.5 million for the 6MFY2019 to approximately RMB239.2 million for the 6MFY2020.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including the following:

U.S. being our major export market

U.S. is our major export market, revenue from which constitutes approximately 72.4%, 69.4%, 71.8% and 70.5% of our total revenue during each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. According to the F&S Report, panel furniture sales in the U.S. has increased from approximately US$20.3 billion in 2014 to US$25.0 billion in 2019, representing a CAGR of approximately 4.3%. Furthermore, panel furniture sales in the U.S. is expected to grow from approximately US$25.0 billion in 2020 to US$26.5 billion in 2024 at a CAGR of approximately 1.5%. We anticipate that our furniture export sales to the U.S. will continue to be significant. Our results of operations are largely affected by the level of consumer demand for our products in the U.S. which is in turn influenced by a number of factors, such as general economic conditions, some of which are beyond our control and which could in turn affect our sales and results of operations.

Any trade preferential treatments or restrictions such as anti-dumping duties, tariffs or quota fees imposed by the U.S., or a trade war involving our products could also significantly affect the prices of our products sold and eventually affect our sales.

Ability to maintain product mix to respond to changing consumer's preferences and market trends

Our future growth and success depend significantly on the development of the changing furniture market. The development of the furniture market depends on various factors, including changes in consumers' preferences, spending patterns, demand for new styles, technology advancements and requirements for product safety and functionality. Demand of our furniture products is driven in part by our customers' ability to identify, distinguish and respond to these varying factors in a timely manner, as well as our ability to maintain a product mix which responds effectively to consumers' preferences and market trends.

Our ability to maintain business relationship with our major international customers

During the Track Record Period, our furniture products were mainly sold to the U.S. market on wholesale basis, including overseas retail chains directly or through our customers which were furniture traders. During the FY2017, FY2018 and FY2019, our market coverage reached to more than 55 countries and regions and to more than 30 countries and regions worldwide during the 6MFY2020. Such countries and regions include the U.S., Canada, Singapore, Malaysia, Vietnam, the PRC and various countries in Europe and Africa.

Set out in the section headed "Business — Customers — Top five customers" are details of the Top Five Customers. During the Track Record Period, we did not have any dispute with our major customers which would have had a material impact on our business, financial condition or results of operations. In the event that we lose some or all of our major customers, our sales and our business may be materially and adversely affected.

Our customers' ability to sell their products

During each of the FY2017, FY2018, FY2019 and 6MFY2020, approximately 78.6%, 75.9%, 74.3% and 75.5% of our revenue was attributed to sales through furniture traders.

Our results of operations are directly affected by the success of these furniture traders in their businesses. Their businesses may be, in turn, affected by (i) these furniture traders' ability to market and sell their products successfully; (ii) the global and regional economy may affect the operations of the furniture traders and/or their respective furniture traders, which may in turn affect their demand for our products; and (iii) changes in the demand of our furniture products and/or expected increase in competition or any other reasons may also affect the demand of our furniture products which may, in turn, affect our results of operation.

Pricing pressure from our competitors

We operate in a highly competitive industry. We face keen competition in the furniture manufacturing business. The pricing of similar products by competitors may adversely affect the pricing of our products. If our major competitors were to reduce their prices significantly, we may have to reduce our selling prices in order to remain competitive and this will likely reduce our revenues and profitability.

Production capacity and efficiency

In order to meet our customer demand, we aim to ensure that we have sufficient production capacity, which affects our revenue, production efficiency and our profitability. As at 30 June 2020, we have three production facilities in Ganzhou, Jiangxi Province, the PRC, namely Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory, to manufacture the principal product sold by us (i.e. panel furniture). For each of the FY2017, FY2018, FY2019 and 6MFY2020, the designed production capacity for panel furniture was 1,330,460 cubic metres, 1,480,089 cubic metres, 1,558,145 cubic metres and 808,512 cubic metres, respectively. Please refer to the section headed "Business — Manufacturing Facilities — Production capacity and utilisation rate" for further details on the fluctuation in actual production volume and utilisation rate for panel furniture at these three production facilities.

We believe that the scale of our operations allow us to maintain a highly competitive cost structure as we are able to benefit from economies of scale, cost effectiveness and efficiencies in our operations due to our vertically integrated business model. We also believe that our large scale operation equips us with the ability and the production capacity to deliver products as scheduled which is crucial to our customers hence to our success.

Cost of production materials

The principal production materials used in our production processes include particleboards and MDFs. Cost of materials consumed accounted for approximately 80.5%, 81.6%, 82.9% and 81.4% of our cost of sales for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Particleboards and MDFs (as principal materials for the production of our panel furniture) accounted for approximately 79.0%, 79.9%, 78.0% and 77.1% of the cost of materials consumed for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively.

We source all of our production materials in the PRC during the Track Record Period. The prices of the production materials may fluctuate due to various factors such as general market conditions and the availability of alternative comparable materials. As we do not enter into contracts with our suppliers for production material and we place orders with our suppliers each time we make procurement, we are subject to risks from fluctuations in production materials costs and the risk of not being able to purchase sufficient quantities of production materials to meet our production requirements. If we are unable to obtain production materials at satisfactory prices or unable to pass increased costs on to our customers, our profitability and hence financial performance may be adversely affected. Furthermore, increasing prices of our products may adversely affect the demand from our customers.

Foreign exchange exposure and currency conversion risks

In respect of our export sales, prices are quoted in US$ on free on board basis. For the FY2017, FY2018, FY2019 and 6MFY2020, we recorded net foreign exchange gains (losses) of approximately RMB(48.7) million, RMB30.7 million, RMB2.8 million and RMB10.9 million, respectively. During the Track Record Period, we had not adopted any financial instrument to hedge our foreign currency exchange risks. Any change in the foreign exchange rates may affect our revenue. Appreciation of RMB would reduce the income from overseas sales in terms of RMB, which may affect our financial conditions and profitability.

Interest rates

During the Track Record Period, we financed our business operation mainly by bank loans and other loans, which were interest-bearing loans. The amount of bank loans and other loans as at 31 December 2017, 2018 and 2019 and 30 June 2020 in aggregate amounted to approximately RMB921.8 million, RMB768.2 million, RMB656.0 million and RMB615.7 million, respectively. Interest for our bank loans were charged at fixed/floating effective interest rates ranging from 0.77% to 7.99%, 2.08% to 7.84%, 3.685% to 7.99% and 3.685% to 7.99% as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. While interest for the majority of our other loans as at 31 December 2017, 2018 and 2019 and 30 June 2020 were charged at fixed effective interest rates ranging from 2.0% to approximately 4.28% as at 31 December 2017 and 2018, respectively, and 1.2% to approximately 4.28% as at 31 December 2019 and 30 June 2020, respectively. We do not have an interest rate hedging policy. Any change in the interest rates may affect our finance costs which in turn may affect our financial conditions and profitability.

Seasonality

Our sales are subject to seasonal fluctuations. From our experience, we generally record higher revenue in the fourth quarter of each year as our customers will need to replenish their inventory prior to Christmas. According to the F&S Report, this seasonality trend is consistent with the industry norm.

BASIS OF PRESENTATION

Our Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law on 16 March 2018. In preparation for the Listing, we underwent the Reorganisation as detailed in the section headed "History, Reorganisation and Corporate Structure — Reorganisation".

Our financial information has been prepared based on the accounting policies set out in "Appendix I — Accountants' Report — II. Notes to the Historical Financial Information — 4. Significant accounting policies", which conform with HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Listing Rules.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of our Group for the Track Record Period which include the results, changes in equity and cash flows of the companies now comprising our Group have been prepared if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment where it is shorter period.

The consolidated statements of financial position as at 31 December 2017, 2018, 2019 and 30 June 2020 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates.

For the purpose of preparing and presenting the Historical Financial Information, we have adopted all applicable new/revised HKFRSs and amendments except new/revised HKFRSs and amendments first effective on 1 January 2019. The new or amended HKFRSs that are effective from 1 January 2019 did not have any material impact on our financial performance and position, except HKFRS 16 "Leases" ("**HKFRS 16**"). We have adopted HKFRS 16 since 1 January 2019 using modified retrospective approach and therefore the financial information for the years ended 31 December 2017 and 2018 has not been restated and continues to be reported under HKAS 17 "Lease" ("**HKAS 17**") and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" ("**HK(IFRIC)-Int 4**").

The adoption of HKFRS 16 has no significant impact on our financial performance and position when compared to HKAS 17 as our right-of-use assets are mainly reclassified from prepaid land lease payments.

Accordingly, throughout the Track Record Period, we have early adopted the following new standards which were effective for accounting periods commencing on 1 January 2018 where early adoption is permitted:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

The adoption of HKFRS 9 has no significant impact on our financial position and performance when compared to that of HKAS 39. We applied the simplified approach to providing expected credit losses prescribed by HKFRS 9. Expected credit losses amounted to approximately RMB3.9 million, RMB4.4 million, RMB5.3 million and RMB7.9 million were made for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively.

The impact of HKFRS 9 has already been reflected on our historical financial position and performance during the Track Record Period.

HKFRS 15 has been applied consistently throughout the Track Record Period, we recognises revenue when (or as) performance obligation is satisfied, which has no impact on our finance position and performance when compared to that of HKAS 18 "Revenue".

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies, judgments and estimates that are important for you to understand our financial condition and results of operations, are set out in detail in Notes 4 and 5 to the Accountants' Report respectively. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Our estimates are based on historical experience, latest information and other assumptions that we believe to be reasonable under the current circumstances. Actual results may differ under different assumptions and conditions. We have not changed our assumptions or estimates in the past. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the foreseeable future.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below sets out our consolidated statements of profit or loss and other comprehensive income during the Track Record Period, which is extracted from the Accountants' Report:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue	2,823,880	3,327,221	3,719,066	1,753,025	1,630,742
Cost of sales	(2,158,610)	(2,542,383)	(2,835,754)	(1,332,832)	(1,264,454)
Gross profit	665,270	784,838	883,312	420,193	366,288
Other revenue	10,088	9,217	5,520	2,989	3,030
Other gains and losses	(51,970)	26,278	1,652	(10,734)	7,887
Distribution and selling expenses	(51,706)	(57,798)	(65,445)	(32,007)	(31,954)
Administrative expenses	(84,314)	(80,662)	(84,219)	(41,302)	(37,046)
Equity-settled share-based payment	—	(92,425)	—	—	—
Provision of impairment loss recognised on trade receivables, net	(231)	(526)	(858)	(64)	(2,593)
Finance costs	(81,255)	(101,238)	(59,790)	(32,991)	(21,672)
Listing expenses	(359)	(11,154)	(10,097)	(5,064)	(1,906)
Profit before income tax expense	405,523	476,530	670,075	301,020	282,034
Income tax expense	(70,742)	(91,066)	(101,772)	(47,531)	(42,839)
Profit for the year/period	334,781	385,464	568,303	253,489	239,195
Profit for the year/period attributable to:					
Owners of the Company	334,781	385,464	568,303	253,489	239,195
Total comprehensive income for the year/ period attributable to:					
Owners of the Company	334,781	385,464	568,303	253,489	239,195

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

The table below sets out a breakdown of our revenue derived from sales of our furniture products manufactured on OEM and ODM basis during the Track Record Period:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
ODM	1,899,678	67.4	2,253,358	68.5	2,752,928	74.7	1,182,890	68.2	1,283,779	79.0
OEM	917,979	32.6	1,036,075	31.5	934,514	25.3	552,069	31.8	340,597	21.0
Total	2,817,657	100.0	3,289,433	100.0	3,687,442	100.0	1,734,959	100.0	1,624,376	100.0

Note: The above exclude revenue generated from sales of particleboards and/or our retail sales, which amounted to approximately RMB6.2 million, RMB37.8 million, RMB31.6 million and RMB6.4 million for each of the FY2017, FY2018, FY2019 and 6MFY2020 and accounted for approximately 0.2%, 1.1%, 0.9% and 0.4% of our revenue for each of the respective years/periods.

By product type

We derived our revenue primarily from the manufacturing and sale of furniture products during the Track Record Period:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (*unaudited*)	*%*	*RMB'000*	*%*
Panel furniture *(Note 1)*	2,820,422	99.88	3,177,352	95.50	3,483,930	93.68	1,685,252	96.13	1,499,899	91.98
Upholstered furniture	2,433	0.08	68,391	2.05	111,556	3.00	25,635	1.46	58,736	3.60
Others *(Note 2)*	1,025	0.04	81,478	2.45	123,580	3.32	42,138	2.41	72,107	4.42
Total	2,823,880	100.00	3,327,221	100.00	3,719,066	100.00	1,753,025	100.00	1,630,742	100.00

Notes:

1. The revenue of panel furniture included the revenue from sales of particleboards and/or our retail sales, which was approximately RMB6.2 million, RMB37.8 million, RMB31.6 million, RMB18.1 million and RMB6.4 million for each of the FY2017, FY2018, FY2019, 6MFY2019 and 6MFY2020 and accounted for approximately 0.2%, 1.1%, 0.9%, 1.0% and 0.4% of our revenue for each of the respective years/periods.

2. Others include outdoor furniture and sports and recreational equipment.

i) Panel furniture

Our panel furniture products include a wide range of products, from television cabinets, bookshelves, shelves, desks to coffee tables. The manufacture and sales of panel furniture were our primary focus and core revenue driver during the Track Record Period. We recorded a stable increase in revenue from panel furniture during the FY2017, FY2018 and FY2019. We recorded a decrease in revenue from panel furniture during the 6MFY2020 as compared to that in the 6MFY2019.

ii) Upholstered furniture and others

Leveraged from our expertise and experience in product design and development and our business relationship with major overseas retail chains and furniture traders, we intend to further expand our product offerings in upholstered furniture and other furniture such as, outdoor furniture and sports and recreational equipment to tap into new potential markets. As such, we have started commercial production of upholstered furniture, outdoor furniture and sports and recreational equipment since 2017.

Our upholstered furniture mainly includes sofas. Our outdoor furniture mainly includes outdoor tables, outdoor stools and fire pit tables and our sports and recreational equipment mainly includes table tennis table, foosball tables and pool tables.

We recorded revenue from these products in aggregate of approximately RMB3.5 million, RMB149.9 million, RMB235.1 million and RMB130.8 million for FY2017, FY2018, FY2019 and 6MFY2020, respectively. We plan to expand our product offerings in these categories through enhancing our product design and development.

Our revenue increased from approximately RMB2,823.9 million for the FY2017 to approximately RMB3,327.2 million for the FY2018, and further increased to approximately RMB3,719.1 million for the FY2019. Our revenue decreased by approximately RMB122.3 million, or 7.0% from approximately RMB1,753.0 million for the 6MFY2019 to approximately RMB1,630.7 million for the 6MFY2020.

The overall increase in our revenue during the FY2017, FY2018 and FY2019 was attributable to (i) the increase in the overall designed production capacities of panel furniture at our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory; (ii) the stable increase in the sales of our panel furniture, in particular, our sales of cabinet, shelf and table, supported by the increase in sales of upholstered furniture and others; (iii) the increase in sales from the majority of the Top Five Customers; and (iv) the increase in the overall average selling price of our panel furniture products. For further details on the reason for the increase in our revenue during the FY2017, FY2018 and FY2019, please refer to the paragraph headed "Period-to-Period Comparison of Results of Operations" in this section.

In addition, as confirmed by the Top Five Customers, the increase in the demand of our products is partly resulted from the shifting of orders that they used to place with other suppliers to us. We are the largest supplier for the majority of the Top Five Customers and the largest and only direct supplier of panel furniture of Walmart in the PRC as they source their other panel furniture products through traders in the PRC. Our customers have been shifting orders that they used to place with other suppliers to us because they consider that (i) we have an increasing production capacity that is much higher than the other panel furniture manufacturers in the PRC and therefore would be able to maintain a stable and timely supply of quality products which are value for money; (ii) we focus on the manufacture and sale of panel furniture and have the capability to manufacture particleboard in-house thereby ensuring the quality of our products; (iii) we have strong R&D capabilities which allow us to offer products of different types and designs and products that suit the overseas market preference. Our customers can centralise their purchases of furniture products from us and thereby reducing their cost of procurement; and (iv) some of the other PRC panel furniture manufacturers in the PRC that are of smaller size of operation have either changed their business focus or closed down.

Some of our customers had further confirmed that their purchase of panel furniture from us had significantly increased during the FY2017, FY2018 and FY2019 as a result of the growth of online sale and the expansion of their business into new geographical regions or their customer base.

Our revenue decreased during the 6MFY2020 as compared to that in the 6MFY2019 mainly due to the decrease in our sales of panel furniture. Such decrease was mainly due to the decrease in the volume of our panel furniture (in terms of trade value) delivered to our customers during the 6MFY2020 as a result of (i) the temporary suspension of our production facilities in February 2020 due to the outbreak of the COVID-19 pandemic and the preventive measures imposed by the PRC government; and (ii) the decrease in the orders received by us (in terms of transaction amounts) as our customers and/or their downstream customers were relatively conservative in placing orders given the outbreak of COVID-19 pandemic and the lockdown measures in the U.S.. For further details, please refer to the paragraph headed "Period-to-period Comparison of Results of Operations — 6MFY2020 compared to 6MFY2019" in this section.

According to the F&S Report, the export value of PRC panel furniture has decreased from approximately RMB86.0 billion in 2018 to approximately RMB81.7 billion in 2019 primarily as a result of the Sino-U.S. trade war and it is anticipated that the export value of the PRC panel furniture would continue to drop by approximately 10% to approximately RMB73.5 billion in 2020 due to the outbreak of the COVID-19. Nevertheless, the overall PRC panel furniture export market is expected to recover and grow from approximately RMB73.5 billion in 2020 to approximately RMB83.4 billion in 2024, representing a CAGR of approximately 3.2%. Taking into account of (i) the expected recovery and growth of the PRC panel furniture export market in the foreseeable future; (ii) our sizable production capacity, stable product quality and R&D capabilities; and (iii) discussion with our customers on their expected demand for our products, we do not expect to have any material adverse change to our business prospects.

Price range and average selling price of panel furniture

The table below sets out a breakdown on the price range, revenue and average selling price of our panel furniture during the Track Record Period *(note 1)*:

	Price range *(per unit)* *RMB*		Revenue *RMB'000* FY2017	FY2018	FY2019	6MFY2019 *(unaudited)*	6MFY2020		Percentage of our total revenue of panel furniture % FY2017	FY2018	FY2019	6MFY2019	6MFY2020		Approximate average selling price *(per unit)* *RMB* FY2017	FY2018	FY2019	6MFY2019	6MFY2020
Panel furniture																			
(a) Cabinet																			
	Low 70–400		288,406	132,142	83,758	43,538	29,130												
	Medium 401–1,000		724,082	952,779	1,212,926	470,913	632,791												
	High 1,001–2,420		187,644	119,306	189,682	92,481	79,619												
		Sub-total	**1,200,132**	**1,204,227**	**1,486,366**	**606,932**	**741,540**		42.7	38.4	43.1	36.4	49.7		513	562	645	631	652
(b) Shelf																			
	Low 20–200		81,160	56,286	52,525	31,371	14,382												
	Medium 201–600		649,705	721,353	872,360	408,687	353,622												
	High 601–1,600		15,931	17,531	41,463	19,175	17,995												
		Sub-total	**746,796**	**795,170**	**966,348**	**459,233**	**385,999**		26.5	25.3	28.0	27.5	25.8		257	295	279	282	281
(c) Chair																			
	Low 80–600		71,181	108,221	50,586	38,176	12,044												
	Medium 601–1,000		95,940	158,146	120,042	72,029	50,539												
	High 1,001–2,200		102,523	285,806	153,510	140,480	32,344												
		Sub-total	**269,644**	**552,173**	**324,138**	**250,685**	**94,927**		9.6	17.6	9.4	15.0	6.4		622	769	778	817	802
(d) Table																			
	Low 30–600		185,001	114,108	108,652	69,907	24,537												
	Medium 601–1,000		63,098	139,869	223,980	85,682	100,213												
	High 1,001–2,620		279,167	283,121	306,791	167,090	143,419												
		Sub-total	**527,266**	**537,098**	**639,423**	**322,679**	**268,169**		18.7	17.1	18.5	19.4	18.0		431	366	426	375	603
(e) Others																			
	Low 30–700		8,591	3,027	4,155	2,676	870												
	Medium 701–1,400		61,769	47,869	28,467	22,617	993												
	High 1,401–2,400		—	—	3,409	2,363	1,036												
		Sub-total	**70,360**	**50,896**	**36,031**	**27,656**	**2,899**		2.5	1.6	1.0	1.7	0.1		825	758	576	685	240
		Total:	**2,814,198**	**3,139,564**	**3,452,306**	**1,667,185**	**1,493,534**	**Total:**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**Overall average selling price:**	**402**	**443**	**446**	**439**	**484**

The table below sets out further breakdown of our revenue, gross profit margin and average selling price of our panel furniture based on the price range during the Track Record Period *(note 1)*:

Panel furniture price range *(note 2)*	Revenue *RMB'000*					Percentage of our total revenue of panel furniture %						Gross profit margin %						Approximate average selling price *(per unit)* *RMB*				
	FY2017	FY2018	FY2019	6MFY2019 *(unaudited)*	6MFY2020	FY2017	FY2018	FY2019	6MFY2019	6MFY2020		FY2017	FY2018	FY2019	6MFY2019	6MFY2020		FY2017	FY2018	FY2019	6MFY2019	6MFY2020
Low	634,339	413,784	299,676	185,668	80,964	22.5	13.2	8.7	11.1	5.4		19.9	21.4	24.0	24.0	22.1		192	159	138	141	149
Medium	1,594,594	2,020,016	2,457,775	1,059,928	1,138,158	56.7	64.3	71.2	63.6	76.2		24.4	23.3	23.0	23.1	21.9		495	520	492	498	491
High	585,265	705,764	694,855	421,589	274,412	20.8	22.5	20.1	25.3	18.4		25.1	23.9	24.1	24.8	21.5		1,233	1,180	1,209	1,208	1,219
	2,814,198	3,139,564	3,452,306	1,667,185	1,493,534	100.0	100.0	100.0	100.0	100.0	Overall gross profit margin:	23.6	23.2	23.2	23.6	21.8	Overall average selling price:	402	443	446	439	484

Notes:

1. The information set out in the table has excluded the revenue from the sales of particleboards and/or our retail sales, which accounted for approximately 0.2%, 1.1%, 0.9%, 1.0% and 0.4% of our revenue for FY2017, FY2018, FY2019, 6MFY2019 and 6MFY2020, respectively.

2. As the price ranges of the different types of panel furniture vary to a significant extent, in order to better present the change in the proportion of our sales generated from products of different price level, each of the major types of our panel furniture had been classified into different sets of levels of price range (i.e. low, medium and high) and same set of price ranges for each type of panel furniture products had been used throughout the Track Record Period. The above revenue for each price range is based on the aggregation of the revenue generated from the sale of each type of panel furniture (i.e. cabinet, shelf, chair, table and others) under the respective level of price range. The price range levels and the classification of each type of panel furniture products were determined based on our Directors' expertise and experience in relation to the PRC panel furniture export market.

By geographical market

The table below sets out the breakdown of our sales of furniture products by geographical regions during the Track Record Period, based on the delivery destinations of our products as requested by our customers:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (*unaudited*)	*%*	*RMB'000*	*%*
United States	2,045,698	72.4	2,308,095	69.4	2,669,892	71.8	1,219,368	69.6	1,150,142	70.5
PRC	152,151	5.4	282,380	8.5	283,354	7.6	132,857	7.6	101,247	6.2
Singapore	233,695	8.3	304,253	9.1	179,444	4.8	114,808	6.5	73,482	4.5
Malaysia	52,508	1.9	68,954	2.1	88,184	2.4	61,351	3.5	42,280	2.6
Vietnam	10,279	0.3	55,747	1.7	79,612	2.1	55,147	3.1	33,370	2.1
Canada	47,311	1.7	52,819	1.6	68,331	1.8	29,557	1.7	26,563	1.6
Hong Kong	14,502	0.5	—	—	—	—	—	—	—	—
Others	267,736	9.5	254,973	7.6	350,249	9.5	139,937	8.0	203,658	12.5
Total	2,823,880	100.0	3,327,221	100.0	3,719,066	100.0	1,753,025	100.0	1,630,742	100.0

During the FY2017, FY2018 and FY2019, based on the delivery destinations of our products requested by our customers, our furniture products were sold to more than 55 countries and regions worldwide. During the 6MFY2020, our furniture products were sold to more than 30 countries and regions worldwide. During the Track Record Period, the decrease in sales of furniture products with delivery destination to Hong Kong was due to the fact that some of our customers elected to request us to deliver its products to other countries and regions worldwide instead of Hong Kong. To the best knowledge and belief of our Directors, in FY2017, certain orders placed by certain of our customers with delivery destination to Hong Kong were for re-export by such customers to other countries and regions worldwide. Some of our customers had requested us to deliver to Hong Kong as they did not want to disclose to us the location of their customers. As the relationship between us and our customers developed and in order to lower the transportation costs, our customers requested us to directly deliver the products to the ports of the countries or regions designated by their customers. Some other customers requested us to deliver our products to HK based on instructions of their respective customers. All the products we produced for export sales during Track Record Period were not under our own brands. Please refer to paragraph headed "Period-to-Period Comparison of Results of Operations" in this section for further information about the fluctuations on the sales of furniture products during the Track Record Period.

By sales to major customers

The table below sets out an analysis of our sales to the Top Five Customers:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Walmart	560,017	19.8	732,186	22.0	890,240	23.9	400,092	22.8	393,581	24.1
Home Nations Inc.	390,979	13.9	591,084	17.8	753,037	20.2	332,440	19.0	312,861	19.2
Tianhong	584,276	20.7	507,985	15.3	555,306	14.9	291,480	16.6	242,449	14.9
Senyue	438,224	15.5	455,924	13.7	488,479	13.1	245,374	14.0	229,423	14.1
Carrie	457,754	16.2	363,597	10.9	445,178	12.0	220,970	12.6	201,056	12.3
Total	**2,431,250**	**86.1**	**2,650,776**	**79.7**	**3,132,240**	**84.2**	**1,490,356**	**85.0**	**1,379,370**	**84.6**

Our revenue from the sales of our furniture products increased from approximately RMB2,823.9 million for the FY2017 to approximately RMB3,719.1 million for the FY2019, representing a CAGR of approximately 14.8%.

We believe that such increase was primarily attributable to (i) the increase in the overall designed production capacities of our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory in FY2018 and FY2019 by approximately 11.2% and 5.3%, respectively, as a result of the enhancement and expansion of our manufacturing facilities and/or machineries; (ii) the increase in sales from majority of the Top Five Customers during FY2017 to FY2019, including Walmart, Home Nations Inc. and Senyue; and (iii) the increase in our sales of certain products to the Top Five Customers. In FY2018, the increase in our sales of chair under panel furniture to the Top Five Customers increased by approximately 113.2% from RMB182.4 million in FY2017 to RMB388.9 million in FY2018. In FY2019, the increase in our sales of cabinet and shelf under panel furniture to the Top Five Customers increased in aggregate by approximately 29.4% from RMB1,767.1 million in FY2018 to RMB2,287.3 million in FY2019.

Our revenue from the sales of our furniture products decreased slightly by approximately 7.0% from approximately RMB1,753.0 million for 6MFY2019 to approximately RMB1,630.7 million for 6MFY2020. Such decrease was mainly due to the decrease in our sales of panel furniture. The decrease in our sales of panel furniture was mainly due to the decrease in the volume of our panel furniture (in terms of trade value) delivered to our customers during the 6MFY2020 as a result of (i) the temporary suspension of our production facilities in February 2020 due to the outbreak of the COVID-19 pandemic and the preventive measures imposed by the PRC government; and (ii) the decrease in the orders received by us (in terms of transaction amounts) as our customers and/or their downstream were relatively conservative in placing orders given the outbreak of COVID-19 pandemic and the lockdown measures in the U.S..

Cost of sales

Cost of sales comprises mainly of our cost of materials consumed, direct labour, and overhead (such as fuel and power, consumables, depreciation, salaries and other miscellaneous costs and expenses).

The table below sets out the components of our cost of sales during the Track Record Period:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Cost of materials consumed *(Note 1)*	1,736,627	80.5	2,073,988	81.6	2,349,555	82.9	1,113,053	83.5	1,029,187	81.4
Overhead	231,401	10.7	259,583	10.2	286,110	10.1	129,788	9.7	137,909	10.9
Direct labour	105,866	4.9	156,157	6.1	184,997	6.5	82,794	6.2	91,702	7.3
Subcontracting fees *(Note 2)*	31,281	1.4	19,666	0.8	15,092	0.5	7,197	0.6	5,656	0.4
VAT *(Note 3)*	53,435	2.5	32,989	1.3	—	—	—	—	—	—
Total	2,158,610	100.0	2,542,383	100.0	2,835,754	100.0	1,332,832	100.0	1,264,454	100.0

Notes:

1. Particleboards and MDFs (as principal materials for the production of our panel furniture) accounted for approximately 79.0%, 79.9%, 78.0% and 77.1% of our cost of materials consumed during each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively.

2. Subcontracting fee relates to the subcontracting fee we paid to subcontractors for certain of our manufacturing work of panel furniture products during the Track Record Period. Please refer to the section headed "Business — Subcontracting" for further details.

3. Represents VAT cost arising from export sales. Please refer to the section headed "Business — Taxation" for details on why no VAT was incurred in FY2019 and 6MFY2020.

Our cost of sales was approximately RMB2,158.6 million, RMB2,542.4 million, RMB2,835.8 million and RMB1,264.5 million for FY2017, FY2018, FY2019 and 6MFY2020, respectively, which accounted for approximately 76.4%, 76.4%, 76.2% and 77.5% of our revenue for the same year/period, respectively.

The cost of materials consumed was the largest component of our cost of sales during the Track Record Period, which accounted for approximately 80.5%, 81.6%, 82.9% and 81.4% of our total cost of sales for the FY2017, FY2018, FY2019 and 6MFY2020, respectively. Our cost of materials consumed increased during the FY2017, FY2018 and FY2019, primarily as a result of the increase in cost of particleboards and MDFs used in the production of our furniture products in respective year. Our cost of materials consumed (in terms of value) decreased slightly in 6MFY2020 as compared with that in 6MFY2019 because of the decrease in sales of our furniture products.

Average unit purchase prices of our principal production materials

Particleboards and MDFs are the principal production materials for the production of our furniture products. The table below sets out details on the average unit purchase prices of our principal production materials during the Track Record Period:

	FY2017	**FY2018**	**FY2019**	**6MFY2020**
	RMB	*RMB*	*RMB*	*RMB*
Particleboards	53.9/piece	53.5/piece	54.6/piece	54.7/piece
MDFs	30.6/piece	29.4/piece	33.8/piece	33.1/piece

Note: All figures in the above table are approximate figures.

During the Track Record Period, we had increased our purchase of MDFs that are relatively thicker. In each of FY2017, FY2018, FY2019 and 6MFY2020, approximately 44.9%, 45.2%, 52.9% and 52.8% of the MDFs purchased by us were above 10mm. Such change in the composition of MDFs purchased by us contributed to the increase in the average unit price of MDFs purchased by us during the Track Record Period. As confirmed by F&S, price of MDFs varies depending on their thickness. MDFs that are thicker would generally be more expensive than those which are thinner.

Historical sensitivity analysis

Our gross profit, gross profit margin and profit before income tax will be affected by our costs of sales if we cannot completely absorb the cost fluctuations into our product prices and the variations in the exchange rate between US$ and RMB.

For illustration purpose, we set out below a sensitivity analysis of the estimated increase/decrease in our profit before income tax for the respective year/period with reference to a hypothetical change in the cost of sales during the Track Record Period, assuming all other factors remain unchanged:

	Decrease/Increase in our profit before income tax			
	FY2017	**FY2018**	**FY2019**	**6MFY2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of sales:				
Hypothetical increase/ decrease of 10%	–/+215,861	–/+254,238	–/+283,575	–/+126,445
Hypothetical increase/ decrease of 20%	–/+431,722	–/+508,477	–/+567,151	–/+252,891
Hypothetical increase/ decrease of 30%	–/+647,583	–/+762,715	–/+850,726	–/+379,336

For illustration purpose, we set out below a sensitivity analysis of the approximate effect on the profit after income tax in response to the appreciation and depreciation of 1% and 2% in RMB exchange rate against U.S. dollar to which our Group has significant exposure at the end of each of the year/period, assuming all other factors remain unchanged:

	Effect on profit after income tax			
	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
US$ to RMB				
Appreciation by 1%	4,922	6,353	7,788	5,836
Depreciation by 1%	(4,922)	(6,353)	(7,788)	(5,836)

	Effect on profit after income tax			
	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
US$ to RMB				
Appreciation by 2%	9,845	12,705	15,577	11,673
Depreciation by 2%	(9,845)	(12,705)	(15,577)	(11,673)

Gross profit and gross profit margin

The table below sets out an analysis of our gross profit and our gross profit margins for each product category during the Track Record Period:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Panel furniture	664,405	23.6	737,663	23.2	809,653	23.2	399,577	23.7	326,724	21.8
Upholstered furniture	632	26.0	23,844	34.9	37,205	33.4	8,646	33.7	19,209	32.7
Others *(Note)*	233	22.7	23,331	28.6	36,454	29.5	11,970	28.4	20,355	28.2
Total/overall gross profit margin	665,270	23.6	784,838	23.6	883,312	23.8	420,193	24.0	366,288	22.5

Note: Others include outdoor furniture and sports and recreational equipment.

We usually determine the price on market-oriented basis for our furniture products. Please refer to the section headed "Business — Customers — Pricing" for further details. In this respect, gross profit margins may vary between different individual items of products and between different customers, regardless of the types of products sold.

Our gross profit increased from approximately RMB665.3 million for FY2017 to approximately RMB784.8 million for FY2018, and further increased to approximately RMB883.3 million for FY2019. Our gross profit decreased by approximately RMB53.9 million, or 12.8% from approximately RMB420.2 million for the 6MFY2019 to approximately RMB366.3 million for the 6MFY2020.

Our overall gross profit margin remained relatively stable at approximately 23.6%, 23.6% and 23.8% for the FY2017, FY2018 and FY2019, respectively. Our gross profit margin for panel furniture remained relatively stable at approximately 23.6% for the FY2017 and 23.2% for the FY2018 and FY2019, respectively. Furthermore, our gross profit margin for (i) upholstered furniture increased from approximately 26.0% for the FY2017 to 34.9% for the FY2018; and (ii) others increased from approximately 22.7% for the FY2017 to 28.6% for the FY2018. Such increase was mainly due to the fact that (i) both upholstered furniture and other furniture were still under trial commercial production in FY2017; and (ii) we sold more upholstered furniture and other furniture with more complex design and production requirements that had higher gross profit margin in FY2018 which led to the increase in gross profit margin of both of these products. Our gross profit margin for upholstered furniture and others remained relatively stable at approximately 33.4% and 29.5% for the FY2019, respectively.

Our overall gross profit margin decreased from approximately 24.0% for the 6MFY2019 to 22.5% for the 6MFY2020 mainly due to the combined effect of the increase in direct labour cost and overheads cost in 6MFY2020 as compared with that in

6MFY2019 and the decrease in sales of our panel furniture products in 6MFY2020 as compared with that in 6MFY2019. For details, please refer to the paragraph headed "Period-to-Period Comparison of Results of Operations — 6MFY2020 compared to 6MFY2019" in this section.

Other revenue

Our other revenue mainly consists of interest income from bank deposits and government grants. Interest income from bank deposits represent approximately 26.4%, 37.5%, 61.6% and 66.6% of our other revenue for the FY2017, FY2018, FY2019 and 6MFY2020, respectively. While government grants represent approximately 69.5%, 51.7%, 9.8% and 11.1% of our other revenue for the FY2017, FY2018, FY2019 and 6MFY2020, respectively, which was granted to us in the PRC as an incentive for industrial development and subsidy for financing our business and non-recurring in nature. The government grants were subject to certain conditions set by the Ganzhou Industrial and Information Committee* (贛州市工業和信息化委員會) and Ganzhou Finance Bureau* (贛州市財政局) such as being an innovative, growing and leading enterprise in Ganzhou.

Other gains and losses

The table below sets out the other gains and losses during the Track Record Period:

	FY2017	**FY2018**	**FY2019**	**6MFY2019**	**6MFY2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Exchange (losses)/gains, net	(48,660)	30,660	2,847	(10,235)	10,874
Gain on disposal of subsidiaries	1,008	—	—	—	—
Losses on disposal of property, plant and equipment	(4,318)	(4,382)	(1,195)	(499)	(2,987)
	(51,970)	26,278	1,652	(10,734)	7,887

Our other gains and losses mainly consists of exchange (losses)/gains which primarily arises from (i) the difference between the exchange rate at which our trade receivables denominated in US$ are recorded and settled; and (ii) the translation of our trade receivables denominated in US$ based on the relevant month-end exchange rate. We recorded net exchange losses for the FY2017 of approximately RMB48.7 million and net exchange gain of approximately RMB30.7 million, RMB2.8 million and RMB10.9 million for the FY2018, FY2019 and 6MFY2020, respectively. The exchange gain or losses during the Track Record Period arose primarily from the time difference between recognition and settlement for our sales and trade receivables denominated in US$ and represent the net effect of the fluctuation of the exchange rate of RMB against US$ in the relevant financial year/period.

Distribution and selling expenses

The table below sets out the breakdown of our distribution and selling expenses during the Track Record Period:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Freight charge	28,787	55.8	35,371	61.2	40,149	61.3	18,912	59.1	19,370	60.6
Customs clearance fee	13,969	27.0	12,804	22.2	15,522	23.7	7,835	24.5	7,825	24.5
Business development fee	6,774	13.1	5,826	10.1	6,595	10.1	3,767	11.8	2,954	9.2
Staff costs	1,313	2.5	1,988	3.4	2,482	3.8	1,099	3.4	1,086	3.4
Advertising fee	68	0.1	64	0.1	385	0.6	243	0.8	642	2.0
Others	795	1.5	1,745	3.0	312	0.5	151	0.4	77	0.3
Total	51,706	100.0	57,798	100.0	65,445	100.0	32,007	100.0	31,954	100.0

During each of FY2017, FY2018, FY2019 and 6MFY2020, our distribution and selling expenses accounted for approximately 1.8%, 1.7%, 1.8% and 2.0% of our total revenue, respectively.

Freight charges represent costs incurred for the transportation of our products for our overseas customers to PRC ports. Customs clearance fee refers to charges payable to customs authority in relation to export declarations for the export of goods at the ports in the PRC. Business development fee mainly represent fees incurred from packing of missing parts or accessories of our products, shipping cost and other service fee. Staff costs represent salary and our contributions for social insurance and housing provident fund incurred for our sales and marketing department. Others mainly represent fees for market data analysis and testing and business travel expenses. The increase in distribution and selling expenses was in line with the increase of our revenue throughout the FY2017, FY2018 and FY2019.

Administrative expenses

The following table sets out details on the breakdown of our administrative expenses during the Track Record Period:

	FY2017		FY2018		FY2019		6MFY2019		6MFY2020	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Staff costs	25,980	30.8	26,659	33.1	27,520	32.7	12,857	31.1	12,665	34.2
Other taxes	18,541	22.0	20,052	24.9	26,323	31.3	13,254	32.1	10,188	27.5
R&D expenses	8,824	10.5	15,077	18.7	14,881	17.7	6,857	16.6	7,117	19.2
Depreciation	4,512	5.4	4,930	6.1	5,387	6.4	2,564	6.2	2,583	7.0
Office utilities	4,587	5.4	2,218	2.7	2,361	2.8	1,352	3.3	1,217	3.3
Travelling and entertainment	2,925	3.5	2,407	3.0	3,015	3.6	1,680	4.1	1,044	2.8
Insurance	1,084	1.3	2,737	3.4	1,239	1.5	718	1.7	926	2.5
Professional fee	3,559	4.2	1,763	2.2	1,588	1.9	850	2.1	200	0.5
Bank charges	7,768	9.2	1,471	1.8	221	0.2	115	0.3	123	0.3
Others	6,534	7.7	3,348	4.1	1,684	1.9	1,055	2.5	983	2.7
Total	84,314	100.0	80,662	100.0	84,219	100.0	41,302	100.0	37,046	100.0

During each of FY2017, FY2018, FY2019 and 6MFY2020, our administrative expenses accounted for approximately 3.0%, 2.4%, 2.3% and 2.3% of our total revenue, respectively.

Staff costs represent salary and our contributions for social insurance, housing provident fund and cost incurred for staff training. Other taxes mainly comprises of land use tax (土地使用稅), real estate tax (房產稅), stamp duty, urban maintenance and construction tax (城市維護建設稅) and educational surcharges (教育費附加). R&D expenses mainly represent salary incurred for our R&D department, R&D design and service fee and rental expenses for our warehouses and showroom in the U.S.. Bank charges mainly represent financing related and service charges, such as, facility fee, bank account opening and/or bank transfer fee from banks and financial institutions. Others mainly include renovation expenses and miscellaneous expenses.

Equity-settled share-based payment

Equity-settled share-based payment represents the cost of the Transferred Shares to Vantage Link, a company wholly owned by Mr. Su, our executive Director and chief financial officer, with a fair value of approximately RMB92.4 million. The Transferred Shares was transferred to Vantage Link in November 2018, as such an equity-settled share-based payment was recognised in FY2018. Please refer to the section headed "History, Reorganisation and Corporate Structure — Pre-IPO Investment" for further details of the Transferred Shares.

Finance costs

The following table sets out details on the breakdown of our finance costs during the Track Record Period:

	FY2017	**FY2018**	**FY2019**	**6MFY2019**	**6MFY2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest expenses on bank and other borrowings	38,622	56,413	56,185	29,522	21,613
Imputed interest expenses on puttable shares	42,633	44,825	3,268	3,268	—
Interest expenses on lease liabilities	—	—	337	201	59
	81,255	101,238	59,790	32,991	21,672

Our finance costs represent the interest expense on bank and other borrowings, imputed interest expenses on puttable shares and interest expenses on lease liabilities. We incurred approximately RMB81.3 million, RMB101.2 million, RMB59.8 million and RMB21.7 million of finance costs for FY2017, FY2018, FY2019 and 6MFY2020, respectively. The increase in our finance costs for the FY2018 was due to the increase of bank borrowings and other loans and imputed interest expenses on puttable shares arose from the investment in Huiming Wood by Shanghai Huarong. The decrease in our finance costs in FY2019 was mainly due to the decrease of imputed interest expenses on puttable shares. The decrease in our finance costs in 6MFY2020 as compared to that in 6MFY2019 was mainly due to the decrease in our bank borrowings and other loans and imputed interest expenses on puttable shares. Please refer to the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood" for further details.

Income tax expense

We are subject to income tax on entity basis on profits arising in or derived from the tax jurisdictions in which members of our Group are domiciled and operate. Three of our PRC subsidiaries, namely Huiming Wood, Huisen Furniture and Huisen Mingda, were eligible to enjoy preferential tax treatment during the Track Record Period, pursuant to the relevant laws and regulations in the PRC. Please refer to the section headed "Appendix III — Regulatory Overview — Overview of PRC Law and Regulations — 10. Tax" for details of the relevant laws and regulations. Pursuant to the relevant regulations in the PRC, such preferential tax treatment will be effective until 31 December 2030. Huiming Wood, Huisen Furniture and Huisen Mingda were subject to EIT at the tax concession rate of 15% during the Track Record Period. All of our other PRC subsidiaries were subject to EIT rate of 25% during the Track Record Period. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had no material disputes or unresolved tax issues with the relevant tax authorities.

Our effective income tax rate was approximately 17.4%, 19.1%, 15.2% and 15.2% in FY2017, FY2018, FY2019 and 6MFY2020, respectively. Our effective tax rate increased from approximately 17.4% for FY2017 to 19.1% for FY2018 mainly due to increase in expenses not deductible for tax purposes which amounted to approximately RMB92.4 million, representing the cost of equity-settled share-based payment for FY2018. Our effective tax rate decreased from approximately 19.1% for FY2018 to approximately 15.2% for FY2019 was mainly due to the increase in tax exemptions granted for FY2019. Our effective tax rate remained relatively stable at approximately 15.8% for 6MFY2019 and approximately 15.2% for 6MFY2020. The amount of tax exemptions granted to our relevant PRC subsidiaries was approximately RMB41.8 million, RMB60.2 million, RMB66.9 million and RMB27.6 million for FY2017, FY2018, FY2019 and 6MFY2020, respectively.

Non-HKFRS Measure

To supplement our consolidated financial statements, which are presented in accordance with HKFRS, we also use the Adjusted Net Profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe that this non-HKFRS measure provides additional information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted Net Profit

The Adjusted Net Profit eliminates the effect of certain non-cash or one-off items, being gain on disposal of subsidiaries, imputed interest expenses on puttable shares, listing expenses and equity-settled share-based payment. The term adjusted net profit is not defined under HKFRS. As a non-HKFRS measure, the Adjusted Net Profit is presented because our management believes such information will be helpful for investors in assessing the effect of gain on disposal of subsidiaries, imputed interest expenses on puttable shares, listing expenses and equity-settled share-based payment on our net profit. The use of the Adjusted Net Profit has material limitations as an analytical tool, as it does not include all items that impact our net profit for the relevant year/period. The effects of imputed interest expenses on puttable shares, listing expenses and equity-settled share-based payment that are eliminated from the Adjusted Net Profit are significant components in understanding and assessing our operating and financial performance. In light of the foregoing limitations for the Adjusted Net Profit, when assessing our operating and financial performance, you should not view the Adjusted Net Profit in isolation or as a substitute for our profit for the year/period or any other operating performance measure that is calculated in accordance with HKFRS. In addition, because this non-HKFRS measure may not be calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies. The following table reconciles our Adjusted Net Profit for the year/period presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS, which is profit for the year/period:

	FY2017	**FY2018**	**FY2019**	**6MFY2019**	**6MFY2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit for the year/ period	334,781	385,464	568,303	253,489	239,195
Less: Gain on disposal of subsidiaries	(1,008)	—	—	—	—
Add:					
— Imputed interest expenses on puttable shares	42,633	44,825	3,268	3,268	—
— Listing expenses	359	11,154	10,097	5,064	1,906
— Equity-settled share-based payment	—	92,425	—	—	—
Adjusted Net Profit	376,765	533,868	581,668	261,821	241,101

For the FY2017, FY2018, FY2019 and 6MFY2020, our Adjusted Net Profit amounted to approximately RMB376.8 million, RMB533.9 million, RMB581.7 million and RMB241.1 million, respectively. Our Adjusted Net Profit increased from approximately RMB376.8 million for the FY2017 to approximately RMB581.7 million for the FY2019, representing a CAGR of approximately 24.3%. Our Adjusted Net Profit decreased by approximately RMB20.7 million, or 7.9% from approximately RMB261.8 million for the 6MFY2019 to approximately RMB241.1 million for the 6MFY2020.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

6MFY2020 compared to 6MFY2019

Revenue

Our revenue decreased by approximately RMB122.3 million, or 7.0% from approximately RMB1,753.0 million for the 6MFY2019 to approximately RMB1,630.7 million for the 6MFY2020. Such decrease was mainly due to the decrease in our sales of panel furniture in 6MFY2020. The decrease in our sales of panel furniture was mainly due to the decrease in the volume of our panel furniture (in terms of trade value) delivered to our customers during the 6MFY2020 as a result of (i) the temporary suspension of our production facilities for 14 days in February 2020 due to outbreak of the COVID-19 pandemic and the preventive measures imposed by the PRC government; and (ii) the decrease in the orders received by us (in terms of transaction amounts) as our customers and/or their downstream were relatively conservative in placing orders given the outbreak of COVID-19 pandemic and the lockdown measures in the U.S.. On the other hand, sales of upholstered furniture and other furniture in aggregate increased from approximately RMB67.8 million in 6MFY2019 to approximately RMB130.8 million in 6MFY2020 was mainly due to the fact that the scale of production of our upholstered furniture and other furniture had remained small in 6MFY2019.

Cost of sales

Our cost of sales decreased slightly by approximately 5.1% from approximately RMB1,332.8 million for 6MFY2019 to approximately RMB1,264.5 million for 6MFY2020. Such decrease was mainly due to the decrease in cost of materials consumed because of the decrease in sales of our furniture products.

Gross profit and gross profit margin

Our overall gross profit decreased by approximately 12.8% from approximately RMB420.2 million for the 6MFY2019 to approximately RMB366.3 million for the 6MFY2020. Our overall gross profit margin decreased from approximately 24.0% for the 6MFY2019 to approximately 22.5% for the 6MFY2020 and our gross profit margin for panel furniture decreased from approximately 23.7% for the 6MFY2019 to approximately 21.8% for the 6MFY2020. Such decrease were mainly due to the combined effect of the decrease in the sales of our panel furniture products in 6MFY2020 and the increase in direct labour and overhead cost.

Our gross profit margin for upholstered furniture remained relatively stable at approximately 33.7% for the 6MFY2019 and approximately 32.7% for the 6MFY2020. Our gross profit margin for others remained relatively stable at approximately 28.4% for the 6MFY2019 and approximately 28.2% for the 6MFY2020.

Other revenue

Our other revenue remained relatively stable at approximately RMB3.0 million for the 6MFY2019 and 6MFY2020.

Other gains and losses

Our other gains and losses increased significantly from other losses of approximately RMB10.7 million for the 6MFY2019 to other gains of approximately RMB7.9 million for the 6MFY2020. Such increase was mainly due to the exchange gain of approximately RMB10.9 million recognised in 6MFY2020 due to the depreciation of RMB against US$ while we incurred exchange losses of approximately RMB10.2 million in 6MFY2019.

Distribution and selling expenses

Our distribution and selling expenses remained relatively stable at approximately RMB32.0 million for the 6MFY2019 and 6MFY2020.

Administrative expenses

Our administrative expenses decreased by approximately 10.3% from approximately RMB41.3 million for the 6MFY2019 to approximately RMB37.0 million for the 6MFY2020. Such decrease was mainly due to the decrease in other taxes, professional fee and travelling and entertainment. The decrease in other taxes was mainly due to the decrease in educational surcharges and urban maintenance and construction tax as a result of the decrease in our sales of furniture products in 6MFY2020. The decrease in professional fee was mainly due to decrease in consultancy fee paid to Longnan Economic and Technological Development Zone Construction Investment Co., Ltd.* 龍南經濟技術開發區建設投資有限公司 ("**Longnan Investment**"), an Independent Third Party and a state owned enterprise, in respect of consultancy service for obtaining loans. The decrease in travelling and entertainment was mainly due to the decrease in business trips and hospitality events as a result of the outbreak of COVID-19.

Finance costs

Our finance costs decreased by approximately 34.3% from approximately RMB33.0 million for the 6MFY2019 to approximately RMB21.7 million for the 6MFY2020. Such decrease was mainly due to the decrease in interest expenses on bank and other borrowings and imputed interest expenses on puttable shares. The decrease in interest expenses on bank and other borrowings was mainly due to the decrease in our bank and other borrowings. Furthermore, we have not incur any imputed interest expenses on puttable shares during the 6MFY2020 following completion of the exit of the investment by Shanghai Huarong in Huiming Wood on 18 February 2019. Please refer to the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (3) Huiming Wood" for further details.

Income tax expenses

Our income tax expenses decreased by approximately 9.9% from approximately RMB47.5 million for the 6MFY2019 to approximately RMB42.8 million for the 6MFY2020. Such decrease was mainly due to the decrease in profit before income tax expense of our PRC subsidiaries and the increase in utilisation of unrecognised tax losses for the 6MFY2020.

Profit for the period, Adjusted Net Profit, net profit margin and Adjusted Net Profit margin

As a combined result of the factors discussed above, our profit for the period decreased by approximately 5.6% from approximately RMB253.5 million for the 6MFY2019 to approximately RMB239.2 million for the 6MFY2020. Our Adjusted Net Profit (non-HKFRS measure) decreased by approximately 7.9% from approximately RMB261.8 million for the 6MFY2019 to approximately RMB241.1 million for the 6MFY2020. Our net profit margin remained relatively stable at approximately 14.5% for the 6MFY2019 and approximately 14.7% for the 6MFY2020. Our Adjusted Net Profit margin (non-HKFRS measure) remained relatively stable at approximately 14.9% for the 6MFY2019 and approximately 14.8% for the 6MFY2020.

FY2019 compared to FY2018

Revenue

Our revenue increased by approximately RMB391.8 million, or 11.8% from approximately RMB3,327.2 million for the FY2018 to approximately RMB3,719.1 million for the FY2019. Such increase was mainly due to the increase in our sales of panel furniture and supported by the increase in sale of upholstered furniture and others in FY2019. The increase in our sales of panel furniture was mainly due to (i) increase in sales from the Top Five Customers; (ii) the increase in our sales of (a) cabinet under panel furniture by approximately 23.4% from approximately RMB1,204.2 million in FY2018 to approximately RMB1,486.4 million in FY2019 which contributed to approximately 50.8% of the increase in our revenue of panel furniture (net of revenue of particleboards and/or our retail sales), without taking into account the decrease in revenue from chairs and others, in FY2019 as compared with that in FY2018; and (b) shelf under panel furniture by approximately 21.5% from approximately RMB795.2 million in FY2018 to approximately RMB966.3 million in FY2019 which contributed to approximately 30.8% of the portion of increase in revenue of panel furniture (net of revenue of particleboards and our retail sales), without taking into account the decrease in revenue from chairs and others, in FY2019 as compared with that in FY2018. Sales of upholstered furniture and other furniture in aggregate increased from approximately RMB149.9 million in FY2018 to approximately RMB235.1 million in FY2019 which contributed to an increase of approximately 21.8% of the increase in our revenue in FY2019 as compared with that in FY2018.

Cost of sales

Our cost of sales increased by approximately 11.5% from approximately RMB2,542.4 million for FY2018 to approximately RMB2,835.8 million for FY2019. Such increase was mainly resulted from the increase in our cost of materials consumed mainly due to the increase in purchase of particleboards and MDFs.

Gross profit and gross profit margin

Our overall gross profit increased by approximately 12.5% from approximately RMB784.8 million for the FY2018 to approximately RMB883.3 million for the FY2019. Our overall gross profit margin remained relatively stable at approximately 23.6% for the FY2018 and approximately 23.8% for the FY2019.

Our gross profit margin for panel furniture remained stable at approximately 23.2% for the FY2018 and FY2019. Our gross profit margin for upholstered furniture remained relatively stable at approximately 34.9% for the FY2018 and approximately 33.4% for the FY2019. Our gross profit margin for others remained relatively stable at approximately 28.6% for the FY2018 and approximately 29.5% for the FY2019.

Other revenue

Our other revenue decreased by approximately 40.1% from approximately RMB9.2 million for the FY2018 to approximately RMB5.5 million for the FY2019. Such decrease was mainly due to the decrease in government grants received by us in the PRC for incentive of industrial development and subsidy for financing of our business and such government grant is non-recurring in nature.

Other gains and losses

Our other gains and losses decreased significantly by approximately 93.7% from net gains of approximately RMB26.3 million for the FY2018 to approximately RMB1.7 million for the FY2019. Such decrease was mainly due to the decrease in exchange gain for the FY2019 of approximately RMB27.8 million which mainly represents the net effect of the fluctuation of the exchange rate of RMB against US$ in the FY2019.

Distribution and selling expenses

Our distribution and selling expenses increased by approximately 13.2% from approximately RMB57.8 million for the FY2018 to approximately RMB65.4 million for the FY2019. Such increase was mainly due to the increase of our freight charge and customs clearance fee which was due to the increase in shipping volume of our products for the FY2019.

Administrative expenses

Our administrative expenses increased by approximately 4.4% from approximately RMB80.7 million for the FY2018 to approximately RMB84.2 million for the FY2019. Such increase was mainly due to the increase in other taxes and travelling and entertainment which was partially offset by the decrease of bank charges and insurance. The increase in other taxes was mainly due to increase in urban maintenance and construction tax and educational surcharges resulted from our increase in revenue. The decrease in bank charges was mainly due to the decrease in service charges paid to financial institutions for loan agreements. The decrease in insurance was mainly due to one-off insurance payment for our staffs in FY2018.

Finance costs

Our finance costs decreased by approximately 40.9% from approximately RMB101.2 million for the FY2018 to approximately RMB59.8 million for the FY2019. Such decrease was mainly due to the decrease in imputed interest expenses on puttable shares in respect of the investment in Huiming Wood by Shanghai Huarong.

Income tax expense

Our income expense increased by approximately 11.8% from approximately RMB91.1 million for the FY2018 to approximately RMB101.8 million for the FY2019. Such increase was mainly due to the increase in our profit before income tax expense for the FY2019.

Our effective income tax rate decreased from approximately 19.1% for the FY2018 to approximately 15.2% for the FY2019. Such decrease was mainly due to the increase in tax exemptions granted for FY2019.

Profit for the year, Adjusted Net Profit, net profit margin and Adjusted Net Profit margin

As a combined result of the factors discussed above, our profit for the year increased by approximately 47.4% from approximately RMB385.5 million for the FY2018 to approximately RMB568.3 million for the FY2019. Our Adjusted Net Profit (non-HKFRS measure) increased by approximately 9.0% from approximately RMB533.9 million for the FY2018 to approximately RMB581.7 million for the FY2019. Our net profit margin increased from approximately 11.6% for the FY2018 to approximately 15.3% for the FY2019. Our Adjusted Net Profit margin (non-HKFRS measure) remained relatively stable at approximately 16.0% for the FY2018 and approximately 15.6% for the FY2019.

FY2018 compared to FY2017

Revenue

Our revenue increased by approximately 17.8% from approximately RMB2,823.9 million for FY2017 to approximately RMB3,327.2 million for FY2018. Such increase was mainly due to the increase in our sales of panel furniture and supported by the increase in sale of upholstered furniture and other furniture in FY2018. The increase in our sales of panel furniture was mainly due to (i) the increase of the overall designed production capacities of panel furniture of our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory by approximately 11.2%; (ii) increase in sales from the majority of the Top Five Customers, including Walmart, Home Nations Inc. and Senyue; (iii) the increase in our sales of chair under panel furniture by approximately 104.8% from RMB269.6 million in FY2017 to RMB552.2 million in FY2018 which contributed to an increase of approximately 86.8% of the increase in our revenue of panel furniture (net of revenue of particleboards and/or our retail sales) in FY2018 as compared with that in FY2017; (iv) increase in average selling price of our panel furniture, in particular, the average selling price of chair mainly due to (a) the average selling price of chair increased from RMB622 per unit in FY2017 to RMB769 per unit in FY2018 as we sold more chair under high price range; and (b) increase in the proportion of revenue from panel furniture that fall under the mid price range and high price range from approximately 77.5% in FY2017 to approximately 86.8% in FY2018. Sales of upholstered furniture and other furniture in aggregate increased from approximately RMB3.5 million in FY2017 to RMB149.9 million in FY2018 which contributed to an increase of approximately 29.1% of the increase in our revenue in FY2018 as compared with that in FY2017.

Cost of sales

Our cost of sales increased by approximately 17.8% from approximately RMB2,158.6 million for FY2017 to approximately RMB2,542.4 million for FY2018. Such increase was in line with our revenue and resulted from the increase in (i) our cost of materials consumed mainly due to the increase in purchase of particleboards and MDFs; (ii) overhead mainly due to the increase in our scale of production; and (iii) direct labour which was mainly due to our business expansion and increase in salary of our production and manufacturing staffs.

Gross profit and gross profit margin

Our overall gross profit increased by approximately 18.0% from approximately RMB665.3 million for the FY2017 to approximately RMB784.8 million for the FY2018. Our overall gross profit margin remained stable at approximately 23.6% for the FY2017 and FY2018.

Our gross profit margin for panel furniture remained relatively stable at approximately 23.6% for the FY2017 and approximately 23.2% for the FY2018. Our gross profit margin for (i) upholstered furniture increased from approximately 26.0% for the FY2017 to 34.9% for the FY2018; and (ii) others increased from approximately 22.7% for the FY2017 to 28.6% for the FY2018. Such increase was mainly due to the fact that (i) both upholstered furniture and other furniture were still under trial commercial production in FY2017; and (ii) we sold more upholstered furniture and other furniture with more complex design and production requirements that had higher gross profit margin in FY2018 which led to the increase in gross profit margin of both of these products.

Other revenue

Our other revenue decreased by approximately 8.6% from approximately RMB10.1 million for the FY2017 to approximately RMB9.2 million for the FY2018. Such decrease was mainly due to the decrease in government grants received by us in the PRC for incentive of industrial development and subsidy for financing our business.

Other gains and losses

Our other gains and losses increased significantly from net losses of approximately RMB52.0 million for the FY2017 to net gains of approximately RMB26.3 million for the FY2018. Such increase was mainly due to the net exchange gain for the FY2018 of approximately RMB30.7 million which mainly represents the net effect of the fluctuation of the exchange rate of RMB against US$ in the FY2018.

Distribution and selling expenses

Our distribution and selling expenses increased by approximately 11.8% from approximately RMB51.7 million for the FY2017 to approximately RMB57.8 million for the FY2018. Such increase was mainly due to the increase of our freight charge and other distribution and selling expenses which was in line with the increase in our revenue, and increase in staff costs which was mainly due to increase in headcount and salary.

Administrative expenses

Our administrative expenses decreased by approximately 4.3% from approximately RMB84.3 million for the FY2017 to approximately RMB80.7 million for the FY2018. Such decrease was mainly due to the decrease of bank charges and other expenses, which was partially offset by the increase in R&D expenses. The decrease in bank charges was mainly due to the decrease in service charges paid to financial institutions for (i) loan agreements; and (ii) the exemption of guarantee fee of the relevant member of our Group pursuant to a measure issued by the local government of Ganzhou. The increase in R&D expenses was mainly due to increase in R&D staff costs attributable to increase in headcount and salary and increase in design and service fee paid for the development of new products.

Equity-settled share-based payment

We incurred equity-settled share-based payment of approximately RMB92.4 million in FY2018 which represents the cost of the Transferred Shares to Vantage Link, a company wholly owned by Mr. Su, our executive Director and chief financial officer, with an approximate fair value in such amount. The Transferred Shares was transferred to Vantage Link in November 2018, as such an equity-settled share-based payment was recognised in FY2018. Please refer to the section headed "History, Reorganisation and Corporate Structure — Pre-IPO Investment" for further details of the Transferred Shares.

Finance costs

Our finance costs increased by approximately 24.6% from approximately RMB81.3 million for the FY2017 to approximately RMB101.2 million for the FY2018. Such increase was mainly due to increase in interest rate of certain of our bank borrowings and imputed interest expenses on puttable shares in respect of the investment in Huiming Wood by Shanghai Huarong.

Income tax expense

Our income tax expense increased by approximately 28.7% from approximately RMB70.7 million for the FY2017 to approximately RMB91.1 million for the FY2018. Such increase was mainly due to the increase in our profit before income tax expense for the FY2018.

Our effective income tax rate increased from approximately 17.4% for the FY2017 and approximately 19.1% for FY2018. Such increase was mainly due to increase in expenses not deductible for tax purposes which amounted to approximately RMB92.4 million, representing the cost of equity-settled share based payment for FY2018.

Profit for the year, Adjusted Net Profit, net profit margin and Adjusted Net Profit margin

As a combined result of the factors discussed above, our profit for the year increased by approximately 15.1% from approximately RMB334.8 million for the FY2017 to approximately RMB385.5 million for the FY2018. Our Adjusted Net Profit (non-HKFRS measure) increased by approximately 41.7% from approximately RMB376.8 million for the FY2017 to approximately RMB533.9 million for the FY2018. Our net profit margin remained relatively stable at approximately 11.9% for the FY2017 and approximately 11.6% for the FY2018. Our Adjusted Net Profit margin (non-HKFRS measure) increased from approximately 13.3% for the FY2017 to approximately 16.0% for the FY2018.

DISCUSSION ON MAJOR ITEMS OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our property, plant and equipment mainly represent building, leasehold improvement, machineries, motor vehicles, furniture and equipment and construction in progress. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying value of our property, plant and equipment amounted to approximately RMB1,138.0 million, RMB1,062.9 million, RMB959.5 million and RMB957.3 million, respectively.

Our property, plant and equipment decreased by approximately 6.6% as at 31 December 2018 as compared to as at 31 December 2017 mainly due to more depreciation charge provided than the addition to fixed asset for the year.

Our property, plant and equipment decreased by approximately 9.7% as at 31 December 2019 compared to as at 31 December 2018 mainly due to more depreciation charge provided than the addition to fixed asset for the year.

Our property, plant and equipment remained relatively stable as at 30 June 2020 compared to as at 31 December 2019.

Prepaid land lease payments — non current portion

Our prepaid land lease payments (non current portion) mainly represent payments for the land use rights for our Huiming Wood Factory, Aigesen Factory and Huisen Mingda Factory. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying value of our prepaid land lease payments (non current portion) amounted to approximately RMB23.4 million, RMB22.9 million, nil and nil, respectively.

Our prepaid land lease payments (non current portion) decreased by approximately 2.1% as at 31 December 2018 as compared to as at 31 December 2017 mainly due to the amortisation for the year.

We did not incur any prepaid land lease payments (non current portion) as at 31 December 2019 and 30 June 2020, respectively, mainly due to the reclassification of the carrying value of prepaid land lease payments to right-of-use assets at the date of initial application of HKFRS 16. The adoption of HKFRS 16 had no significant impact on our financial performance and position when compared to that of HKAS 17 as the majority of the properties used by us are self-owned.

Prepayments for acquisition of property, plant and equipment and land use rights

Our prepayments for acquisition of property, plant and equipment and land use rights mainly represent prepayments for acquisition of the land use rights for our Huiming Wood Factory, Aigesen Factory and Huisen Mingda Factory and for purchases of new production machineries. As at 31 December 2017, 2018 and 2019 and 30 June 2020, our prepayments for acquisition of property, plant and equipment and land use rights amounted to approximately RMB6.0 million, RMB12.0 million, RMB30.8 million and RMB50,000, respectively.

Our prepayments for acquisition of property, plant and equipment and land use rights increased by approximately 100.3% as at 31 December 2018 as compared to as at 31 December 2017 mainly due to certain fees we incurred in respect of a parcel of land we entered into an agreement to acquire in October 2017 in Ganzhou, Jiangxi Province, the PRC. We had terminated the agreement with the relevant government authorities of the PRC in respect of the acquisition of such parcel of land due to the reason that the relevant government authorities of the PRC has proposed changes in urban planning of the area where such parcel of land is situated and we have received full refund from the relevant government authorities of the PRC for the prepayments we made for such parcel of land.

Our prepayments for acquisition of property, plant and equipment and land use rights increased by approximately 156.5% as at 31 December 2019 as compared to as at 31 December 2018 mainly due to the prepayments for the purchase of equipment for Huisen Furniture Factory.

Our prepayments for acquisition for property, plant and equipment and land use rights decreased by approximately 99.8% as at 30 June 2020 as compared to 31 December 2019 mainly due to the utilisation of the deposit paid in FY2019 for acquisition of property, plant and equipment for Huisen Furniture Factory during the 6MFY2020.

Inventories

Our inventories comprised of raw materials, work-in-progress and finished goods. The table below sets out our inventories as at the dates indicated below:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw material	68,677	75,574	64,747	52,786
Work in progress	26,931	11,846	8,014	6,227
Finished goods	194,849	141,200	98,669	83,054
Total	290,457	228,620	171,430	142,067

Our inventories decreased by approximately 21.3% as at 31 December 2018 as compared to as at 31 December 2017. The decrease was mainly due to the fact that we have increased delivery of finished goods in the last two months of 2018 as compared with that in FY2017 because certain of our customers requested earlier shipment of our products. Our inventories decreased by approximately 25.0% as at 31 December 2019 compared to as at 31 December 2018. The decrease was mainly due to the fact that we have increased delivery of finished goods during December 2019 as compared to that in December 2018 mainly due to the earlier lunar new year holiday in 2020. Our inventories decreased by approximately 17.1% as at 30 June 2020 as compared to as at 31 December 2019. Such decrease was mainly due to the fact that we generally experience higher inventories level in December as we start to manufacture products in respect of sales orders for January in light of closure of factories during lunar new year holiday.

We carry out inventory review at the end of each financial period and makes allowance on obsolete and slow moving items in order to write off or write down such obsolete and slow moving inventories to their net realisable values. Impairment may arise if the expected net realisable value is lower than the carrying amount of the inventory. During the Track Record Period, no write-down of inventories was made.

As at the Latest Practicable Date, approximately RMB142.0 million of our inventories as at 30 June 2020 have been subsequently used and/or sold in the period since 30 June 2020 up to the Latest Practicable Date, representing approximately 99.9% of our inventories as at 30 June 2020.

The table below sets out details of the average inventory turnover days as at the years/period indicated below:

	FY2017	**FY2018**	**FY2019**	**6MFY2020**
Average inventory turnover days *(note)*	40	37	26	23

Note: Average inventory turnover days were calculated based on our average inventory of respective years divided by our cost of sales of the respective years/period and multiplied by 365 days/182.5 days.

Our average inventory turnover days decreased during the Track Record Period mainly due to the decrease in our inventories as at 31 December 2017, 2018 and 2019 and 30 June 2020.

Trade receivables

Our trade receivables mainly represented the outstanding amounts receivable by us from our customers. We will review the creditworthiness of our customers after conducting business with them for a certain period of time, and credit period may be granted to these customers. We typically offer credit period of up to 90 days for our export sales customers and up to 30 days for domestic sales customers. We record trade receivables net of any impairment provision made. Please refer to Note 21 to the Accountants' Report on the approach we adopted in determining the expected loss provision for our trade receivables.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, our trade receivables (net of impairment provision) amounted to approximately RMB774.5 million, RMB879.2 million, RMB1,050.0 million and RMB779.1 million, respectively. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the impairment provision for our trade receivables amounted to approximately RMB3.9 million, RMB4.4 million, RMB5.3 million and RMB7.9 million, respectively.

Our trade receivables increased by approximately 13.5% and 19.4% as at 31 December 2018 and 2019, respectively, as compared to as at the preceding year end date. Such increases in trade receivables were mainly due to increase in our revenue. Our trade receivables as at 30 June 2020 decreased by approximately 25.8% as compared to as at 31 December 2019. Such decrease was mainly due to decrease in our revenue during the second quarter of 2020 (i.e. April to June in 2020) as compared with our revenue during the last quarter of FY2019 given that the last quarter of the year is normally our peak season.

The table below sets out the average trade receivables turnover days for the years/period indicated below:

	FY2017	**FY2018**	**FY2019**	**6MFY2020**
Average trade receivables turnover days *(note)*	98	91	95	103

Note: Average trade receivable turnover days were calculated based on our average trade receivables of respective years/period divided by our revenue of the respective years and multiplied by 365 days/182.5 days.

Our average trade receivables turnover days remained relatively stable during the Track Record Period.

The table below sets out the aging analysis of our gross trade receivables (based on the payment due dates) as at the dates indicated below:

	As at 31 December			**As at 30 June**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not yet past due	777,088	883,191	974,531	786,926
Less than 3 months past due	1,289	437	80,703	—
	778,377	883,628	1,055,234	786,926

Our gross trade receivables that was past due decreased from approximately RMB1.3 million as at 31 December 2017 to approximately RMB0.4 million and nil as at 31 December 2018 and 30 June 2020, respectively. Our gross trade receivable that was past due increased to approximately RMB80.7 million as at 31 December 2019 mainly due to increase in our sales and the fact that certain customers did not settle their invoices within the credit period.

As at the Latest Practicable Date, all of the total trade receivables (net of impairment provision) as at 30 June 2020 have been subsequently settled. During the Track Record Period, we did not experience any bad and doubtful debts or disputes with our customers that would have had a material impact on our business, financial condition or results of operations. Further, our Directors are not aware that any of our major customers has experienced any financial difficulties that may materially affect our business.

Trade and bills payables

Our trade and bills payables mainly represented the outstanding amounts payable by us to our suppliers of production materials. We were generally granted with credit periods of up to one month after receipt for our principal production materials. We may also settle our purchases for production materials by way of bills.

The table below sets out the breakdowns of our trade and bills payables as at the dates indicated below:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	258,578	246,831	269,741	184,151
Bills payable	1,020	20,000	1,240	500
	259,598	266,831	270,981	184,651

Our trade and bills payables balance increased by approximately 2.8% from RMB259.6 million as at 31 December 2017 to approximately RMB266.8 million as at 31 December 2018 mainly due to the increase in purchase of production materials as our sales increased. Our trade and bills payables balance increased by approximately 1.6% to approximately RMB271.0 million as at 31 December 2019 mainly due to increase in purchase of production materials during December 2019 as compared to December 2018. Our trade and bills payables balance decreased by approximately 31.9% to approximately RMB184.7 million as at 30 June 2020 mainly due to decrease in purchase of production materials during June 2020 as compared to December 2019. The bills payable as at 31 December 2017, 2018 and 2019 and 30 June 2020 represents the bills payable for purchases of production materials.

The table below sets out the average trade payable turnover days for the years/period indicated below:

	FY2017	**FY2018**	**FY2019**	**6MFY2020**
Average trade payable turnover days *(note)*	47	36	33	33

Note: Average trade payable turnover days were calculated based on our average trade payable of respective years/period divided by our cost of sales of the respective years/period and multiplied by 365 days/182.5 days.

Our average trade payable turnover days decreased from 47 days for the FY2017 to 36 days for the FY2018 and further decreased to 33 days for the FY2019. Our average trade payable turnover days remained relatively stable at 33 days for the 6MFY2020. Our average trade payable turnover days during each of the FY2017, FY2018, FY2019 and 6MFY2020 was around the credit period of 30 days granted by our suppliers.

The table below sets out the aging analysis of our trade payables (by invoice dates) as at the dates indicated below:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within six months	258,578	246,831	269,741	184,151

All the bills payables of ours were not yet due at the end of the respective year/period end date. As at the Latest Practicable Date, all of the total trade and bills payable as at 30 June 2020 have been subsequently settled.

Other payables and accruals

The table below sets out the breakdowns of our other payables and accruals as at the dates indicated below:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	58,306	16,047	18,864	14,369
Accruals	31,582	37,928	45,897	30,610
	89,888	53,975	64,761	44,979

Our other payables and accruals balance decreased by approximately 39.9% from approximately RMB89.9 million as at 31 December 2017 to approximately RMB54.0 million as at 31 December 2018. Such decrease was mainly due to the fact that (i) we did not incur any additional payment for the construction of our factory or any substantial payment for the acquisition of equipment; and (ii) certain of the other payables as at 31 December 2017 have been settled during FY2018. Our other payables and accruals balance increased by approximately 20.0% to approximately RMB64.8 million as at 31 December 2019. Such increase was mainly due to the increase in payables of professional fee in relation to the Listing and accrued salaries in FY2019. Our other payables and accruals balance decreased by approximately 30.5% to approximately RMB45.0 million as at 30 June 2020. Such decrease was mainly due to the bonus paid to our employees in 6MFY2020.

Puttable shares payable

As at 31 December 2017, 2018 and 2019 and 30 June 2020, our puttable shares payable amounted to approximately RMB369.4 million, RMB349.5 million, nil and nil, respectively. Our puttable shares payable represented the puttable shares subscribed by Shanghai Huarong and have consequently been accounted for as a financial liability under the consolidated financial statements. Please refer to Note 31 to the Accountants' Report on the accounting treatment of the puttable shares payable.

Amounts due to shareholders

As at 31 December 2017, 2018 and 2019 and 30 June 2020, our amounts due to shareholders amounted to approximately RMB23.2 million, nil, nil and RMB0.4 million, respectively. The amounts due to shareholders as at 31 December 2017 and 30 June 2020 represented certain fees advanced by Mr. Zeng or Ms. Zeng ML on our behalf.

Amounts due to a related party

The table below sets out the analysis of the amounts due to a related party as at the dates indicated below:

	As at 31 December			**As at 30 June**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-trade nature				
HK Tengda	12,474	—	—	—
	12,474	—	—	—

The amounts due to HK Tengda represented part of the consideration payable by Huiming Wood for the acquisition of Huisen Furniture in December 2016. Please refer to the section headed "History, Reorganisation and Corporate Structure — Establishment of and Major Changes Concerning our Company and Major Subsidiaries — (2) Huisen Furniture" for further details in relation to the acquisition of Huisen Furniture by Huiming Wood".

Related parties transactions

With respect to the related parties transactions set forth in Note 39 to the Accountants' Report, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to us than terms available to Independent Third Parties (in respect of purchase of raw material) and were fair and reasonable and in the interest of our Shareholders as a whole.

None of the related party transactions set out in Note 39 to the Accountants' Report will continue after Listing.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital needs primarily through our operating cash flows. Our primary uses of cash are for the funding of our operating activities and our general corporate working capital. After completion of the Global Offering, we expect our sources of funds will be a combination of operating cash flows, net proceeds from the Global Offering and other funds raised from capital markets from time to time, when necessary.

The following table is a condensed summary of our consolidated statement of cash flows for the year/period ended on the dates indicated:

	FY2017	FY2018	FY2019	6MFY2019	6MFY2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Operating profits before working capital changes	563,490	770,695	831,013	384,290	359,682
Change in working capital	(225,012)	(49,313)	(60,106)	33,204	207,423
Income tax paid	(62,560)	(99,831)	(99,101)	(40,791)	(42,409)
Net cash generated from operating activities	275,918	621,551	671,806	376,703	524,696
Net cash generated from/(used in) investing activities	46,198	(160,125)	30,045	48,612	(17,605)
Net cash generated from/(used in) financing activities	182,140	(314,354)	(523,753)	(357,274)	(63,622)
Net increase in cash and cash equivalents	504,256	147,072	178,098	68,041	443,469
Cash and cash equivalents at the beginning of year/period	255,210	759,466	906,538	906,538	1,084,636
Cash and cash equivalents at the end of year/period	**759,466**	**906,538**	**1,084,636**	**974,579**	**1,528,105**

Net cash generated from operating activities

Our cash inflows from operating activities were primarily generated from the sale of furniture. Our cash outflows for operating activities were primarily related to payments for the purchase of raw materials for productions, labour costs and other operation costs such as R&D expenses.

Our net cash generated from operating activities reflects profit before income tax expense for the year/period, adjusted for (i) non-cash items such as amortisation of prepaid land lease payments, depreciation of property, plant and equipment and depreciation of right-of-use assets; (ii) finance costs; (iii) interest income; (iv) net provision of impairment loss recognised on trade receivables; (v) gain on disposal of subsidiaries; (vi) equity-settled share-based payment; and (vii) loss on disposal of property, plant and equipment.

For the FY2017, our net cash generated from operating activities amounted to approximately RMB275.9 million, which was mainly due to cash generated from operations of approximately RMB338.5 million and income tax paid of approximately RMB62.6 million. Our cash generated from operations consisted of profit before income tax expense of approximately RMB405.5 million before net negative changes in working capital of approximately RMB225.0 million. Net negative changes in working capital consisted of (i) increase in inventories of approximately RMB113.1 million mainly due to increase in our size of operation (in terms of sales and production); (ii) increase in trade receivables of approximately RMB64.9 million mainly due to increase in revenue; (iii) increase in prepayments, deposits and other receivables of approximately RMB38.9 million mainly due to increase in revenue and hence increase in VAT recoverable; (iv) decrease in trade and bills payables of approximately RMB38.8 million mainly due to the decrease in procurement of raw materials in December 2017; (v) increase in other payables and accruals of approximately RMB40.2 million mainly due to certain payment due for the construction of, and equipment purchased for, our Aigesen Factory had yet to be settled; and (vi) decrease in amounts due to related parties of approximately RMB9.5 million mainly due to the fact that we ceased to purchase particleboards from Hengda Wood since April 2017.

For the FY2018, our net cash generated from operating activities amounted to approximately RMB621.6 million, which was mainly due to cash generated from operations of approximately RMB721.4 million and income tax paid of approximately RMB99.8 million. Our cash generated from operations consisted of profit before income tax expense of approximately RMB476.5 million before net negative changes in working capital of approximately RMB49.3 million. Net negative changes in working capital consisted of (i) decrease in inventories of approximately RMB61.8 million mainly due to the fact that we have increased delivery of finished goods in the last two months of 2018 as compared with that in FY2017 as a result that certain of our customers requested earlier shipment of our products; (ii) increase in trade receivables of approximately RMB105.3 million mainly due to increase in revenue; (iii) decrease in prepayments, deposits and other receivables of approximately RMB22.8 million mainly due to the fact that we have received the payment of the consideration for the disposal of Huiming Ecological; (iv) increase in trade and bills payables of approximately RMB7.2 million mainly due to increase in our sales and thereby increase in procurement of raw materials; and (v) decrease in other payables and accruals of approximately RMB35.9 million, as we did not incur any additional payment for the construction of our factory or any substantial payment for the acquisition of equipment.

For the FY2019, our net cash generated from operating activities amounted to approximately RMB671.8 million, which was mainly due to cash generated from operations of approximately RMB770.9 million and income tax paid of approximately RMB99.1 million. Our cash generated from operations consisted of profit before income tax expense of approximately RMB670.1 million before net negative changes in working capital of approximately RMB60.1 million. Net negative changes in working capital consisted of (i) decrease in inventories of approximately RMB57.2 million mainly due to the fact that we have increased delivery of finished goods during December 2019 as compared to that in December 2018 mainly due to the earlier lunar new year holiday in 2020; (ii) increase in trade receivables of approximately RMB171.6 million mainly due to increase in revenue; (iii) decrease in prepayments, deposits and other receivables of approximately RMB39.4 million mainly due to decrease in VAT recoverable; (iv) increase in trade and bills payables of approximately RMB4.2 million mainly due to the increase in purchase of production materials during December 2019 as compared to December 2018; and (v) increase in other payables and accruals of approximately RMB10.8 million mainly due to the increase in payables of professional fee in relation to the Listing and accrued salaries in FY2019.

For the 6MFY2020, our net cash generated from operating activities amounted to approximately RMB524.7 million, which was mainly due to cash generated from operations of approximately RMB567.1 million and income tax paid of approximately RMB42.4 million. Our cash generated from operations consisted of profit before income tax expense of approximately RMB282.0 million before changes in working capital of approximately RMB207.4 million. Changes in working capital consisted of (i) decrease in inventories of approximately RMB29.4 million mainly due to the fact that we generally experience higher inventories level in December as we start to manufacture products in respect of sales orders for January in light of closure of factories during lunar new year holiday; (ii) decrease in trade receivables of approximately RMB268.3 million mainly due to decrease in our revenue during the second quarter of 2020 (i.e. April to June in 2020) as compared with our revenue during the last quarter of FY2019 given that the last quarter of the year is normally our peak season; (iii) decrease in prepayments, deposits and other receivables of approximately RMB15.9 million mainly due to decrease in prepayments for acquisition of property, plant and equipment; (iv) decrease in trade and bills payables of approximately RMB86.3 million mainly due to decrease in purchase of production materials during June 2020 as compared to December 2019; and (v) decrease in other payables and accruals of approximately RMB19.8 million mainly due to bonus paid to our employees in 6MFY2020.

Net cash generated from/(used in) investing activities

During the Track Record Period, our cash generated from investing activities was mainly attributable to proceeds from disposal of property, plant and equipment, prepayments utilised/refunded in for acquisition of property, plant and equipment and land use rights, decrease in restricted bank deposits, proceeds from disposal of subsidiaries (net of cash disposed), repayments from a shareholder and related party and interest received. Our cash used in investing activities was mainly attributable to purchases of property, plant and equipment, prepayments paid for acquisition of property, plant and equipment and land use rights, acquisition of prepaid land lease payments and acquisition of subsidiaries upon Reorganisation.

For the FY2017, we had a net cash generated from investing activities of approximately RMB46.2 million, which was primarily due to (i) prepayments utilised in acquisition of property, plant and equipment and land use rights of approximately RMB458.6 million mainly due to deposit paid in FY2016 was utilised in acquisition of property, plant and equipment in FY2017; (ii) proceeds from disposal of property, plant and equipment of approximately RMB12.7 million mainly due to disposal of machineries; (iii) proceeds from disposal of subsidiaries (net of cash disposed) of approximately RMB19.0 million from the disposal of Huiming Ecological and Gou Si Creative; (iv) repayment from a shareholder and related party in aggregate of approximately RMB108.0 million; (v) decrease in restricted bank deposits of approximately RMB7.0 million; and (vi) interest received of approximately RMB2.7 million, but partially offset by purchase of property, plant and equipment of approximately RMB561.0 million mainly due to purchases of new production machineries for our Huisen Furniture Factory, Huiming Wood Factory and Huisen Mingda Factory and the addition of the construction in progress for our Huiming Wood Factory and Aigesen Factory.

For the FY2018, we had a net cash used in investing activities of approximately RMB160.1 million, which was primarily due to (i) purchases of property, plant and equipment of RMB27.9 million mainly due to purchases of new production machineries for our Huiming Wood Factory, Huisen Mingda Factory, Aigesen Factory and Weiye Jiankang Factory and construction of buildings for our Huisen Mingda Factory; (ii) prepayments paid for acquisition of property, plant and equipment and land use right of approximately RMB6.0 million mainly due to prepayment in respect of a parcel of land we entered into an agreement to acquire in October 2017 in Ganzhou, Jiangxi Province, the PRC; (iii) increase in restricted bank deposits of approximately RMB8.5 million; and (iv) acquisition of subsidiaries upon Reorganisation of approximately RMB121.2 million due to the acquisition from each of Mr. Zeng and Ms. Zeng ML his/her respective entire equity interests in Huiming Wood, but partially offset by interest received of approximately RMB3.5 million.

For the FY2019, we had a net cash generated from investing activities of approximately RMB30.0 million, which was primarily due to (i) proceeds from disposal of property, plant and equipment of approximately RMB13.4 million mainly due to disposal of certain machineries from Huisen Mingda Factory; and (ii) decrease in restricted bank deposits of approximately RMB41.7 million, but partially offset by (i) purchase of property, plant and equipment of approximately RMB9.7 million mainly due to the purchases of new production machineries for our Huisen Furniture Factory and Huisen Mingda Factory; and (ii) prepayments paid for acquisition of property, plant and equipment and land use rights of approximately RMB18.8 million mainly due to the prepayments for the purchase of equipment for Huisen Furniture Factory.

For the 6MFY2020, we had a net cash used in investing activities of approximately RMB17.6 million, which was primarily due to (i) purchase of property, plant and equipment of approximately RMB51.1 million mainly due to the purchase of machineries for our Huisen Furniture Factory and Huisen Mingda Factory, but partially offset by prepayments utilised in/refunded in acquisition of property, plant and equipment and land use rights of approximately RMB30.7 million mainly due to the utilisation of the deposit paid in FY2019 for acquisition of property, plant and equipment for Huisen Furniture Factory.

Net cash generated from/(used in) financing activities

During the Track Record Period, our cash generated from financing activities was mainly attributable to proceeds from borrowings, proceeds from puttable shares, advances from shareholders, advance from a related party and capital contribution from shareholders and our cash used in financing activities was mainly attributable to repayment of borrowings, repayment on puttable shares payable, security deposits paid for borrowings, interest paid, repayment of advance from a shareholder and repayment to related parties.

For the FY2017, we had a net cash generated from financing activities of approximately RMB182.1 million, which was primarily due to (i) proceeds from borrowings of approximately RMB1,414.9 million; (ii) proceeds from puttable shares of RMB350.0 million; and (iii) advances from shareholders of approximately RMB23.2 million, but partially offset by (i) repayment of borrowings of approximately RMB1,192.3 million; (ii) security deposits paid for borrowings of approximately RMB0.7 million; (iii) interest paid of approximately RMB61.9 million; and (iv) repayments to related parties of RMB352.3 million.

For the FY2018, we had a net cash used in financing activities of approximately RMB314.4 million, which was primarily due to (i) repayment of borrowings of approximately RMB920.1 million; (ii) repayment on puttable shares payable of approximately RMB35.0 million; (iii) interest paid of approximately RMB86.2 million; (iv) repayment of advance from a shareholder of approximately RMB23.2 million; (v) repayment to related parties of approximately RMB14.0 million, but partially offset by proceeds of borrowings of approximately RMB766.5 million.

For the FY2019, we had a net cash used in financing activities of approximately RMB523.8 million, which was mainly due to (i) repayments of borrowings of approximately RMB496.2 million; (ii) repayment on puttable shares payable of approximately RMB315.0 million; and (iii) interest paid of approximately RMB94.2 million, but partially offset by proceeds from borrowings of approximately RMB384.0 million and advance from a related party of approximately RMB1.5 million.

For the 6MFY2020, we had a net cash used in financing activities of approximately RMB63.6 million, which was mainly due to (i) repayment of borrowings of approximately RMB77.3 million; and (ii) interest paid of approximately RMB21.7 million, but partially offset by proceeds from borrowings of approximately RMB37.0 million.

Net current assets

Details of our current assets, current liabilities and net current assets of the consolidated statements of financial position as at the respective dates indicated are as follows:

	As at 31 December			As at 30 June	As at 15 October
	2017	**2018**	**2019**	**2020**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Current assets					
Inventories	290,457	228,620	171,430	142,067	207,944
Trade receivables	774,485	879,210	1,049,958	779,057	995,043
Prepayments, deposits and other receivables	122,329	99,548	61,894	47,967	70,662
Prepaid land lease payments	517	508	—	—	—
Amount due from a shareholder	—	—	—	4	—
Amount due from a related party	—	1,500	—	—	—
Deferred tax assets	1,837	1,355	789	1,179	1,363
Restricted bank deposits	34,500	42,973	1,240	500	—
Cash and cash equivalents	759,466	906,538	1,084,636	1,528,105	1,616,190
Total current assets	1,983,591	2,160,252	2,369,947	2,498,879	2,891,202
Current liabilities					
Trade and bills payables	259,598	266,831	270,981	184,651	367,893
Other payables and accruals	89,888	53,975	64,761	44,979	59,933
Borrowings	609,726	478,056	529,615	494,859	400,024
Puttable shares payable	369,404	349,452	—	—	—
Lease liabilities	—	—	2,422	617	3,700
Amount due to an ultimate holding company	—	4	13	24	23
Amounts due to shareholders	23,241	—	—	356	342
Amounts due to a related party	12,474	—	—	—	—
Income tax payable	31,252	22,005	24,110	24,930	20,106
Total current liabilities	1,395,583	1,170,323	891,902	750,416	852,021
Net current assets	588,008	989,929	1,478,045	1,748,463	2,039,181

We had net current assets of approximately RMB588.0 million, RMB989.9 million, RMB1,478.0 million and RMB1,748.5 million as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

Our net current assets increased significantly by approximately 68.4% from approximately RMB588.0 million as at 31 December 2017 to approximately RMB989.9 million as at 31 December 2018. Such increase was mainly due to (i) decrease in other payables and accruals of approximately RMB35.9 million; (ii) decrease in borrowings of approximately RMB131.7 million; (iii) decrease in puttable shares payable of approximately RMB20.0 million; (iv) decrease in amounts due to Shareholders of approximately RMB23.2 million; (v) decrease in amounts due to related parties of approximately RMB12.5 million; (vi) increase in trade receivables of approximately RMB104.7 million; and (vii) increase in cash and cash equivalents of approximately RMB147.1 million which was partially offset by (a) decrease in inventories of approximately RMB61.8 million; and (b) decrease in prepayments, deposits and other receivables of approximately RMB22.8 million.

Our net current assets increased by approximately 49.3% from approximately RMB989.9 million as at 31 December 2018 to approximately RMB1,478.0 million as at 31 December 2019. Such increase was mainly due to (i) decrease in puttable shares payable of approximately RMB349.5 million; (ii) increase in cash and cash equivalents of approximately RMB178.1 million; and (iii) increase in trade receivables of approximately RMB170.7 million which was partially offset by (i) decrease in inventories of approximately RMB57.2 million; (ii) decrease in prepayments, deposits and other receivables of approximately RMB37.7 million; (iii) decrease in restricted bank deposits of approximately RMB41.7 million; (iv) increase in trade and bills payables of approximately RMB4.2 million; (v) increase in other payables and accruals of approximately RMB10.8 million; (vi) increase in borrowings of approximately RMB51.6 million; (vii) increase in lease liabilities of approximately RMB2.4 million; and (viii) increase in income tax payable of approximately RMB2.1 million.

Our net current assets increased by approximately 18.3% from approximately RMB1,478.0 million as at 31 December 2019 to approximately RMB1,748.5 million as at 30 June 2020. Such increase was mainly due to (i) increase in cash and cash equivalents of approximately RMB443.5 million; (ii) decrease in trade and bills payables of approximately RMB86.3 million; (iii) decrease in borrowings of approximately RMB34.8 million; (iv) decrease in other payables and accruals of approximately RMB19.8 million; and (v) decrease in lease liabilities of approximately RMB1.8 million which was partially offset by (i) decrease in trade receivables of approximately RMB270.9 million; (ii) decrease in inventories of approximately RMB29.4 million; and (iii) decrease in prepayments, deposits and other receivables of approximately RMB13.9 million.

Please refer to paragraph headed "Discussion on Major Items of the Consolidated Statements of Financial Position" in this section for analysis of major items of the consolidated statements of financial position for further information about the fluctuations of the abovementioned items.

Our net current assets increased by approximately RMB290.7 million from approximately RMB1,748.5 million as at 30 June 2020 to RMB2,039.2 million as at 15 October 2020.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, taking into account the financial resources available to us, including the existing balance of cash and cash equivalents, available banking facilities, the internally generated funds and the estimated net proceeds to be received by us from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

INDEBTEDNESS

The following table sets forth the amounts of our indebtedness as at the dates indicated:

	As at 31 December			As at 30 June	As at 15 October
	2017	**2018**	**2019**	**2020**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current liabilities					
Bank loans due for repayment within one year *(Note 1)*	591,798	442,692	484,000	463,000	373,500
Other loans *(Note 2)*	17,928	35,364	45,615	31,859	26,524
Puttable shares payable	369,404	349,452	—	—	—
Amount due to an ultimate holding company	—	4	13	24	23
Amounts due to shareholders	23,241	—	—	356	342
Amounts due to a related party	12,474	—	—	—	—
Lease liabilities	—	—	2,422	617	3,700
Non-current liabilities					
Bank loans	265,000	240,000	110,000	110,000	195,000
Other loans *(Note 2)*	47,061	50,145	16,401	10,882	21,259
Lease liabilities	—	—	—	—	4,699
	1,326,906	1,117,657	658,451	616,738	625,047
Guarantee provided by the Group to Hengda Wood *(Note 3)*					
— Leasehold lands	18,000	—	—	—	—
— Machineries	20,000	—	—	—	—
	38,000	—	—	—	—

Notes:

1. The fixed effective interest rates in respect of our bank borrowing ranges from 0.77% to 7.99%, 2.08% to 7.84%, 3.685% to 7.99% and 3.685% to 7.99% as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. The floating effective interest rates in respect of our bank borrowing ranges from 7.84%, 4.29% to 7.84%, 4.29% to 7.84% and 4.29% to 7.84% as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

2. In respect of our other loans to the extent of approximately RMB56.0 million, RMB76.7 million, RMB55.1 million and RMB37.0 million as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively, the fixed effective interest rates range from 2.00% to 4.275% as at 31 December 2017 and 2018 and 1.2% to 4.275% as at 31 December 2019 and 30 June 2020. In respect of our other loans to the extent of approximately RMB9.0 million and RMB8.8 million, RMB7.0 million and RMB5.8 million, the fixed effective interest rates was 14.75% as at 31 December 2017, 2018 and 2019 and 30 June 2020.

3. Hengda Wood was then a company controlled by Mr. Zeng. Prior to the disposal of interest in Hengda Wood by Zhongshang Tou Huisen to an Independent Third Party on 6 September 2018, Hengda Wood was wholly owned by Zhongshang Tou Huisen and Mr. Zeng was the single largest shareholder of Zhongshang Tou Huisen, and the other two shareholders of Zhongshang Tou Huisen held 31% and 20% equity interest in Zhongshang Tou Huisen, respectively.

As at 31 December 2017, 2018 and 2019, 30 June 2020 and 15 October 2020, our bank loans were secured by, among others, (i) certain of our buildings and machineries included in our property, plant and equipment which amounted to approximately RMB257.3 million, RMB243.3 million, RMB330.4 million, RMB316.1 million and RMB311.2 million as at 31 December 2017, 2018 and 2019, 30 June 2020 and 15 October 2020, respectively, (ii) certain of our prepaid land lease payments which amounted to approximately RMB6.1 million, RMB6.2 million, nil, nil and nil as at 31 December 2017, 2018 and 2019, 30 June 2020 and 15 October 2020, respectively, (iii) certain of our trade receivables which amounted to approximately RMB146.0 million, RMB39.2 million, nil, nil and nil as at 31 December 2017, 2018 and 2019, 30 June 2020 and 15 October 2020, respectively, (iv) our restricted bank deposits which amounted to approximately RMB29.5 million, RMB31.8 million, nil, nil and nil as at 31 December 2017, 2018 and 2019, 30 June 2020 and 15 October 2020, respectively, (v) personal guarantee given by our executive Director, Mr. Zeng and his close family members, which included Ms. Zeng RH and Ms. Zeng ML; (vi) properties of non-related parties; (vii) registered capital of Huisen Holding Investment which amounted to US$21.0 million as at 31 December 2019, 30 June 2020 and 15 October 2020, (viii) corporate guarantee given by a non-related party; (ix) land use right under right-of-use assets which amounted to nil, nil, RMB6.1 million, RMB6.7 million and RMB6.7 million at 31 December 2017, 2018 and 2019, 30 June 2020 and 15 October 2020; and (x) corporate guarantee given by a non-related party. For FY2017, FY2018, FY2019 and 30 June 2020, the average interest rate for our bank loans was approximately 4.4%, 5.7%, 6.4% and 6.2%, respectively. All the guarantees and/or pledges (if any) given by the related parties of our Company will be released before or upon Listing.

As at 31 December 2017, 2018 and 2019, 30 June 2020 and 15 October 2020, our other loans of approximately RMB56.0 million, RMB76.7 million, RMB55.1 million, RMB37.0 million and RMB42.6 million were secured by our machineries which amounted to approximately RMB61.4 million, RMB139.3 million, RMB104.0 million, RMB97.4 million and RMB119.7 million and personal guarantee given by director of certain subsidiaries, respectively. As at 31 December 2017, 2018, 2019, 30 June 2020 and 15 October 2020, other loans of approximately RMB9.0 million, RMB8.8 million, RMB7.0 million, RMB5.8 million and RMB5.2 million were loans borrowed under the poverty alleviation loan scheme executed by the Ganzhou government. The loans were borrowed from poverty farmers and interests paid to the farmers were subsidised by the Ganzhou government. For FY2017, FY2018, FY2019 and 6MFY2020, the average interest rate for the our other loans was approximately 4.3%, 11.1%, 8.4% and 5.5%, respectively.

All amounts due to shareholders as at 31 December 2017, 30 June 2020 and 15 October 2020, were unsecured, interest-free and repayable on demand.

As at 15 October 2020, being the latest practicable date for the purpose of determining our indebtedness, we had RMB625.0 million outstanding indebtedness.

Banking facilities

As at 15 October 2020, being the latest practicable date for the purpose of determining our indebtedness, we had undrawn banking facilities of RMB528.5 million. Our Directors have confirmed that we did not experience any difficulty in obtaining credit facilities or withdrawal of facilities during the Track Record Period. To the best knowledge and belief of our Directors, we are not expected to have difficulties in obtaining new banking facilities or renewing banking facilities after Listing.

Restrictive covenants

Our borrowings from banks and financial institutions during the Track Record Period contained standard covenants that restricted us on the use of borrowed funds and/or significant change in our ownership. We have to notify and/or obtained prior consents from the banks and financial institutions for any significant corporate reorganisation, disposal of our major assets, significant external investments, undertake additional debt financing, material litigation or bankruptcy. Save as disclosed above, there were no other material covenants in our facilities. Our Directors confirmed that we did not have any material default in payment of trade or non-trade payables and borrowings, and/or any breach of financial covenants during the Track Record Period.

Taking into account the existing working capital, unutilised banking facilities and the net proceeds to be received from the Global Offering, we do not have any intention or plan to raise material external debt financing as at the Latest Practicable Date.

Contingent liabilities

During the FY2017, FY2018, FY2019 and 6MFY2020, we had provided corporate guarantees (including leasehold land pledged) to entities owned by Independent Third Parties, who were friends of Mr. Zeng, to secure their bank facilities and loan from financial institution for maximum liabilities of approximately RMB141.9 million, nil, nil and nil, respectively. Having taking into consideration the relationship and trustworthiness of such friends, Mr. Zeng, our executive Director, agreed to provide such corporate guarantees. No fees were accrued by us for the provision of any of such corporate guarantees. As at 31 December 2018, the corporate guarantee provided to entities owned by Independent Third Parties had been released. Please refer to Notes 38 and 43 to the Accountants' Report for further details.

During the Track Record Period, no claims had been made against us in respect of the guarantee. Save as disclosed herein, our Directors confirm that as at 15 October 2020, being the latest practicable date for the purpose of determining our indebtedness, we did not have any contingent liabilities or guarantees.

Disclaimer

Save as disclosed above, we did not have any outstanding loan capital issued or agree to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

LEASE ARRANGEMENTS

We leased office premises in the PRC, warehouse and showroom in the U.S. during the Track Record Period. The total future minimum lease payments under non-cancellable leases and the reconciliation to the lease liabilities recognised in the consolidated statements of financial position after adoption of HKFRS 16 on 1 January 2019 are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000 *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*
Minimum lease payments				
Within one year	3,041	4,150	2,795	713
In second to fifth year	—	1,729	—	—
	3,041	5,879	2,795	713
Less: Future finance charge	—	—	373	96
Present value of minimum lease payments	—	—	2,422	617
Initial period of the leases	12 to 24 months	24 months	24 months	24 months

Note: We leased office premises in the PRC through Gou Si Creative prior to its disposal by us in December 2017.

CAPITAL EXPENDITURES

Historical capital expenditure

Our capital expenditures during the Track Record Period mainly related to acquisition of plant and machineries and construction in progress for the expansion of our production facilities.

Our capital expenditures during each of the FY2017, FY2018, FY2019 and 6MFY2020 amounted to approximately RMB103.2 million, RMB33.9 million, RMB28.4 million and RMB20.4 million, respectively. Following the commencement of production of particleboards at our Aigesen Factory in May 2017, our capital expenditure for FY2018, FY2019 and 6MFY2020 decreased accordingly.

Planned capital expenditures

Our planned capital expenditures in the coming years will include those as disclosed in the section headed "Future Plans and Use of Proceeds". Our Directors expect that the planned capital expenditure will be initially funded by our available cash and cash equivalents, cash generated from our operating activities, bank borrowings and the expected net proceeds from the Global Offering.

CAPITAL COMMITMENTS

We had the following capital commitments in respect of commitments for acquisition of property, plant and equipment contracted but not provided for as at the dates indicated:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000* (*Note*)	*RMB'000*	*RMB'000*
Commitments for the acquisition of property, plant and equipment:				
— Contracted but not provided for	45,241	21,180	—	—

Note: Part of this capital commitments was in respect of a parcel of land we entered into an agreement to acquire in October 2017 in Ganzhou, Jiangxi Province, the PRC. We had terminated the agreement with the relevant government authorities of the PRC in respect of the acquisition of such parcel of land due to the reason that the relevant government authorities of the PRC has proposed changes in urban planning of the area where such parcel of land is situated.

Save for the planned capital expenditure as disclosed in "Future Plans and Use of Proceeds", we had no material planned capital expenditures as at the Latest Practicable Date.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

KEY FINANCIAL RATIOS

		As at/For the year ended 31 December			As at/For the six months ended 30 June
	Notes	2017	2018	2019	2020
Net profit margin	1	11.9%	11.6%	15.3%	14.7%
Return on equity	2	26.2%	23.8%	27.3%	19.2%
Return on assets	3	11.7%	12.0%	17.1%	13.9%
Current ratio	4	1.4 times	1.8 times	2.7 times	3.3 times
Quick ratio	5	1.2 times	1.7 times	2.5 times	3.1 times
Gearing ratio	6	91.9%	62.1%	27.8%	23.6%
Debt to equity ratio	7	39.3%	11.7%	net cash	net cash
Interest coverage	8	6.0 times	5.7 times	12.2 times	14.0 times
Non-HKFRS Measures:					
Adjusted Net Profit margin	9	13.3%	16.0%	15.6%	14.8%

Notes:

1. Net profit margin equals to our net profit for the year/period divided by our revenue for the year/period multiplied by 100%.

2. Return on equity equals to our net profit for the year/period divided by total average equity as at the end of the year/period and multiplied by 100%.

3. Return on assets equals to our net profit for the year/period divided by our average total assets for the year/period and multiplied by 100%.

4. Current ratio equals to our total current assets as at the end of the year/period divided by our total current liabilities as at the end of the year/period.

5. Quick ratio equals to our current assets minus inventories as at the end of the year/period divided by our total current liabilities as at the end of the year/period.

6. Gearing ratio equals to our total debt (including borrowings, amounts due to shareholders, amounts due to related parties, puttable shares payables and lease liabilities) as at the end of the year/period divided by total equity as at the end of the year/period and multiplied by 100%.

7. Debt to equity ratio equals to our net debts (being total debt net of cash and cash equivalents) as at the end of the year/period divided by total equity as at the end of the year/period and multiplied by 100%.

8. Interest coverage equals to our profit before finance costs and tax for the year/period divided by our finance costs for the year/period.

9. Adjusted Net Profit margin equals to our Adjusted Net Profit for the year/period divided by our revenue for the year/period and multiplied by 100%. The Adjusted Net Profit margin and Adjusted Net Profit are non-HKFRS measure.

Net profit margin and Adjusted Net Profit margin

Please refer to the paragraph headed "Period-to-Period Comparison of Results of Operations" in this section for the reasons of the fluctuation in net profit margin and Adjusted Net Profit margin (non-HKFRS measure).

Return on equity

Our return on equity decreased from approximately 26.2% for the FY2017 to approximately 23.8% for the FY2018 mainly due to the increase in our total equity because of the increase of our retained earnings attributable to the increase in our net profit for the year as a result of the reasons discussed in "Financial Information — Period-to-Period Comparison of Results of Operations — FY2018 compared to FY2017 — Profit for the year, adjusted net profit, net profit margin and adjusted net profit margin" above. Our return on equity then increased to approximately 27.3% for the FY2019 mainly due to the increase in our net profit for the year as a result of the reasons discussed in "Financial Information — Period-to-Period Comparison of Results of Operations — FY2019 compared to FY2018 — Profit for the year, adjusted net profit, net profit margin and adjusted net profit margin" above. Our return on equity decreased from approximately 27.3% for the FY2019 to approximately 19.2% for the 6MFY2020 mainly due to (i) the increase in our total equity caused by (a) the increase of our retained earnings attributable to our net profit for the period; and (b) the decrease in total current liabilities mainly due to the decrease in trade and bills payables as at 30 June 2020 while our total assets remained relatively stable as at 30 June 2020; and (ii) the decrease in our net profit mainly due to (a) the decrease in net profit during 6MFY2020 compared with 6MFY2019 as a result of the reasons discussed in "Financial Information — Period-to-Period Comparison of Results of Operations — 6MFY2020 compared to 6MFY2019 — Profit for the period, adjusted net profit, net profit margin and adjusted net profit margin" above; and (b) we generally record higher revenue in the fourth quarter of each year.

Return on assets

Our return on total assets increased from approximately 11.7% for the FY2017 to approximately 12.0% for the FY2018 and further increased to approximately 17.1% for the FY2019 mainly due to (i) the increase in our net profit for the year as a result of the reasons discussed in "Financial Information — Period-to-Period Comparison of Results of Operations — FY2018 compared to FY2017 — Profit for the year, adjusted net profit, net profit margin and adjusted net profit margin" and "Financial Information —

Period-to-Period Comparison of Results of Operations — FY2019 compared to FY2018 — Profit for the year, adjusted net profit, net profit margin and adjusted net profit margin" above; and (ii) our total assets remained relatively stable for the corresponding year. Our return on total assets decreased from approximately 17.1% for the FY2019 to approximately 13.9% for the 6MFY2020 mainly due to (i) the decrease in our net profit for the period as a result of the reasons discussed in "Financial Information — Period-to-Period Comparison of Results of Operations — 6MFY2020 compared to 6MFY2019 — Profit for the period, adjusted net profit, net profit margin and adjusted net profit margin" above; and (ii) our total assets remained stable for the period.

Current ratio and quick ratio

Our current ratio increased from approximately 1.4 times as at 31 December 2017 to approximately 1.8 times as at 31 December 2018 mainly due to increase in cash and cash equivalents, decrease in other payables and accruals and borrowings. Our current ratio further increased to approximately 2.7 times as at 31 December 2019 mainly due to decrease in puttable shares payable and increase in cash and cash equivalents. Our current ratio further increased to approximately 3.3 times as at 30 June 2020 mainly due to increase in cash and cash equivalents and decrease in trade and bills payables.

Consistent with the changes in our current ratio, our quick ratios were approximately 1.2 times, 1.7 times, 2.5 times and 3.1 times as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. Our quick ratio increased from approximately 1.2 times as at 31 December 2017 to approximately 1.7 times as at 31 December 2018 mainly due to increase in our cash and cash equivalents, decrease in other payables and accruals and borrowings. Our quick ratio further increased to approximately 2.5 times as at 31 December 2019 mainly due to decrease in puttable shares payable and increase in cash and cash equivalents. Our quick ratio further increased to approximately 3.1 times as at 30 June 2020 mainly due to decrease in trade and bills payables and increase in cash and cash equivalents.

Gearing ratio

Our gearing ratio decreased from approximately 91.9% as at 31 December 2017 to approximately 62.1% as at 31 December 2018 mainly due to increase in our total equity because of the increase of our retained earnings attributable to the increase in our net profit for the year as a result of the reasons discussed in the "Financial Information — Year-to-Year Comparison of Results of Operations — FY2018 compared to FY2017 — Profit for the year, adjusted net profit, net profit margin and adjusted net profit margin" above while our total debt decreased mainly due to payback of bank borrowings during the year. Our gearing ratio further decreased to 27.8% as at 31 December 2019 and 23.6% as at 30 June 2020 mainly due to the decrease in our total debt and increase in our total equity as a result of the increase of our retained earnings attributable to our net profit for the year/period for the reasons discussed in the "Financial Information — Period-to-Period Comparison of Results of Operations — FY2019 compared to FY2018 — Profit for the year, adjusted net profit, net profit margin and adjusted net profit margin" and "Financial

Information — Period-to-Period Comparison of Results of Operations — 6MFY2020 compared to 6MFY2019 — Profit for the period, adjusted net profit, net profit margin and adjusted net profit margin" above.

Debt to equity ratio

Our debt to equity ratio decreased from approximately 39.3% as at 31 December 2017 to approximately 11.7% as at 31 December 2018 mainly due to increase in our total equity resulting from the increase in retained earnings attributable to the profit generated and decrease in the total debt. We had net cash as at 31 December 2019 and 30 June 2020 mainly due to the decrease in total debt and increase in cash and cash equivalents leading to higher cash and cash equivalent level than total debt.

Interest coverage

Our interest coverage ratio remain stable at approximately 6.0 times for the FY2017 and approximately 5.7 times for the FY2018. Our interest coverage then increased to approximately 12.2 times for the FY2019 mainly due to increase in profit before finance costs and tax and decrease in finance costs as a result of the decrease of imputed interest expenses on puttable shares. Our interest coverage then increased to approximately 14.0 times for the 6MFY2020 mainly due to decrease in finance costs as a result of the decrease of interest expenses on bank and other borrowings and imputed interest expenses on puttable shares.

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISKS

During our normal course of business, we are exposed to various financial risks, including credit risk, liquidity risk, interest rate risk and foreign currency risk. For details, please refer to Note 41 to the Accountants' Report.

DIVIDENDS

We have not paid or declared dividend during the Track Record Period. We currently intend to recommend the declaration and distribution of not less than 40% of our Group's audited net profit for the year attributable to Shareholders for the financial year ending 31 December 2020 as final dividends to our Shareholders (according to their respective shareholdings in our Company as shown on the register of members of the Company on a date to be announced by us), subject to the terms of our Articles and compliance with applicable laws and regulations.

Nevertheless, we do not have a dividend policy specifying a dividend payout ratio and the dividend distribution record in the past or the proposed distribution for the year ending 31 December 2020 may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future. Declaration of dividends is subject to the discretion of our Directors depending on our Company's results of operations, cash flows, financial condition, future prospects, general economic conditions in the overseas market and other internal or external factors that may have an impact on the business or financial performance of our Company and other factors that our

Directors may consider relevant. In addition, any declaration and payment as well as the amount of the dividends will be subject to the provisions of (i) our Articles, which provide that dividends may be declared by us at a general meeting, but no dividend shall be declared in excess of the amount recommended by the Board, and (ii) the applicable laws of the Cayman Islands, which provide that dividends may be paid out of the profits of a company or out of sums standing to the credit of its share premium account and that no dividend may be paid out of the share premium account unless, immediately following the date on which the dividend is paid, our Company is able to pay its debts as they fall due in the ordinary course of business.

Under applicable PRC law, each of our subsidiaries in the PRC may only distribute after-tax profits after it has made allocations or allowances for recovery of accumulated losses and allocations to the statutory reserves. Please refer to the section headed "Risk factors — Risk Relating to Conducting Business in the PRC — Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws" for details. Nevertheless, we consider that there is no material difference in our net profit during the Track Record Period as determined under the PRC GAAP and HKFRS.

DISTRIBUTABLE RESERVES

Our Company had no distributable reserve available for distribution to Shareholders as at 30 June 2020.

LISTING EXPENSES

The estimated total expenses in connection with the Listing, calculated based on the mid-point of the indicative Offer Price range, are approximately RMB77.0 million (equivalent to HK$91.1 million, including the underwriting commission and other Listing expenses and fees (including SFC transaction levy and Stock Exchange trading fee)), which represented approximately 7.1% of the gross proceeds from the issue of the Offer Shares (calculated based on the mid-point of the indicative Offer Price range). Out of the total relevant expenses (i.e. RMB77.0 million), RMB37.9 million is to be capitalised (i.e. accounted for as deduction from equity) upon Listing, while the remaining RMB39.1 million was or is expected to be charged to our consolidated statements of profit or loss and other comprehensive income. Approximately RMB0.4 million, RMB11.2 million, RMB10.1 million and RMB1.9 million of the Listing expenses in relation to services already performed had been charged to our consolidated statements of profit or loss and other comprehensive income for each of the FY2017, FY2018, FY2019 and 6MFY2020, respectively. The remaining amount of approximately RMB15.5 million is expected to be charged to our consolidated statements of profit or loss and other comprehensive income after the Track Record Period. The amount of Listing expenses is a current estimate for reference only and the final amount to be recognised to our consolidated statements of profit or loss and other comprehensive income is subject to audit and the then changes in variables and assumption.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules upon Listing.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Please refer to the section headed "Summary — Recent Development and No Material Adverse Change" and Note 46 to the Accountants' Report for details.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Except to the extent disclosed in the paragraph headed "Summary — Recent Development and No Material Adverse Change" in this prospectus, our Directors confirm that, save for the Listing expenses as disclosed in the paragraph headed "Listing Expenses" in this section and the impact of the COVID-19 pandemic, there has been no material adverse change in our financial or trading position since 30 June 2020 (being the date to which our latest audited consolidated financial statements were prepared) and up to the date of this prospectus, and no event has occurred since 30 June 2020 and up to the date of this prospectus which would materially affect the information shown in our consolidated financial statements presented in the Accountants' Report.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For our unaudited pro forma adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules for illustrating the effect of the Global Offering as if it had taken place on 30 June 2020, please refer to Appendix II.

FUTURE PLANS

A detailed description of our future plans is set out in the section headed "Business — Business Strategies".

USE OF PROCEEDS

We estimate that the net proceeds (i.e. gross proceeds net of the underwriting fees and commission and the estimated expenses payable by our Company) from the issue of the Offer Shares will be approximately HK$1,228.8 million (equivalent to RMB1,038.5 million), based on an Offer Price of HK$1.715 per Offer Share (being the mid-point of the indicative Offer Price range set forth on the "Important" page of this prospectus) and assuming that the Over-allotment Option is not exercised at all. We currently intend to apply such net proceeds from the Global Offering for the following purposes:

1) approximately 45.4%, or HK$555.6 million (equivalent to RMB469.6 million) is expected to be used to establish a new manufacturing factory, comprising of two factory compartments, which will focus on the manufacture of panel furniture and upholstered furniture, respectively, including:

   — approximately 19.5%, or HK$239.1 million (equivalent to RMB202.1 million) for (i) acquiring land in Longnan, Ganzhou, Jiangxi Province, the PRC for construction of the factory. We expect to start procuring the land used for the new manufacturing factory in first quarter of 2021 and commence the construction work in first half of 2021; and (ii) capital expenditure for construction of the new manufacturing factory. Approximately HK$165.4 million (equivalent to RMB139.8 million) is expected to be used in FY2021, approximately HK$73.7 million (equivalent to RMB62.3 million) is expected to be used in FY2022; and

   — approximately 25.9%, or HK$316.5 million (equivalent to RMB267.5 million) for acquiring more advanced and automated machineries and equipment for the manufacturing of panel furniture and upholstered furniture, among which approximately HK$158.6 million (equivalent to RMB134.0 million) is expected to be used in FY2021, approximately HK$126.0 million (equivalent to RMB106.5 million) is expected to be used in FY2022 and approximately HK$31.9 million (equivalent to RMB27.0 million) is expected to be used in FY2023.

2) approximately 33.0%, or HK$405.5 million (equivalent to RMB342.7 million) is expected to be used for construction of the second phase of our Aigesen Factory, including:

   — approximately 11.8%, or HK$145.1 million (equivalent to RMB122.6 million) for (i) acquiring land in Nankang, Ganzhou, Jiangxi Province, the PRC, for construction of factory. We expect to start procuring the land used for second phase of our Aigesen Factory in first quarter of 2021 and commence the construction work in first half of 2021; and (ii) capital expenditure for construction of the second phase of our Aigesen Factory. Approximately HK$140.1 million (equivalent to RMB118.4 million) is expected to be used in FY2021, approximately HK$5.0 million (equivalent to RMB4.2 million) is expected to be used in FY2022; and

— approximately 21.2%, or HK$260.4 million (equivalent to RMB220.1 million) for acquiring more advanced and automated machineries and equipment for the manufacturing of particleboards, among which, approximately HK$160.9 million (equivalent to RMB136.0 million) is expected to be used in FY2021, and approximately HK$99.5 million (equivalent to RMB84.1 million) is expected to be used in FY2022.

3) approximately 5.0%, or HK$61.5 million (equivalent to RMB52.0 million) is expected to be used for upgrading our production line by acquiring more advanced and automated machineries and equipment for our Huisen Furniture Factory, among which approximately HK$36.9 million (equivalent to RMB31.2 million) is expected to be used in FY2021 and approximately HK$24.6 million (equivalent to RMB20.8 million) is expected to be used in FY2022.

4) approximately 6.6%, or HK$83.4 million (equivalent to RMB70.4 million) is expected to be used for enhancing our product design, research and development capabilities, including:

— approximately 2.4%, or HK$30.0 million (equivalent to approximately RMB25.4 million) is expected to be used for developing formaldehyde emission free panel boards through Chinese Academy of Sciences Lihua Institute of Technology* (中國科學院理化技術研究所), among which approximately HK$15.0 million (equivalent to RMB12.7 million) is expected to be used in FY2021 and approximately HK$15.0 million (equivalent to RMB12.7 million) is expected to be used in FY2022.

— approximately 1.6%, or HK$20.2 million (equivalent to RMB17.0 million), for leasing the premises for establishing a R&D centre to be located in Dongguan with our own research, design, testing centre and showroom for commercialisation of our furniture products, acquiring machinery, equipment and raw materials for designing and production of prototype and recruiting around 20 experienced designers with at least five years of experience in furniture design for improving and expanding our in-house R&D department, among which approximately HK$10.1 million (equivalent to RMB8.5 million) is expected to be used in FY2021 and approximately HK$10.1 million (equivalent to RMB8.5 million) is expected to be used in FY2022.

— approximately 1.4%, or HK$18.0 million (equivalent to approximately RMB15.2 million) is expected to be used for developing functional and smart furniture products, through Jiangxi University of Science and Technology, among which approximately HK$9.0 million (equivalent to RMB7.6 million) is expected to be used in FY2021 and approximately HK$9.0 million (equivalent to RMB7.6 million) is expected to be used in FY2022.

— approximately 1.2%, or HK$15.2 million (equivalent to approximately RMB12.8 million) is expected to be used for developing panel furniture components and fittings through Jiangxi Environmental Engineering Vocational College* (江西環境工程職業學院), including, among others, lock, connector, chain, slide, handle and wheel, among which approximately HK$7.6 million (equivalent to RMB6.4 million) is expected to be used in FY2021 and approximately HK$7.6 million (equivalent to RMB6.4 million) is expected to be used in FY2022; and

For further details of our future plans with respect to (1) to (4) above, please refer to the section headed "Business — Business Strategies".

5) approximately 10.0% or HK$122.8 million (equivalent to RMB103.8 million) will be used for general replenishment of working capital and other general corporate purpose.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we will deposit the net proceeds into interest-bearing bank accounts, such as demand deposit accounts, with licenced commercial banks and/or authorised financial institutions in Hong Kong and/or the PRC.

Assuming that the Over-allotment Option is not exercised at all, the net proceeds from the Global Offering will be approximately HK$1,334.9 million in the event that the Offer Price is set at HK$1.86 per Offer Share (being the high end of the indicative Offer Price range), approximately HK$1,122.8 million in the event that the Offer Price is set at HK$1.57 per Offer Share (being the low end of the indicative Offer Price range).

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will be approximately HK$1,416.9 million in the event that the Offer Price is set at HK$1.715 per Offer Share (being the mid-point of the indicative Offer Price range), approximately HK$1,538.9 million in the event that the Offer Price is set at HK$1.86 per Offer Share (being the high end of the indicative Offer Price range), approximately HK$1,295.0 million in the event that the Offer Price is set at HK$1.57 per Offer Share (being the low end of the indicative Offer Price range).

In each of the above circumstances, we intend to apply the net proceeds for the various intended uses set out above in the proportions as stated above and the amount of net proceeds to be applied for each intended use will be adjusted accordingly. We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

UNDERWRITERS

Hong Kong Underwriters

China Securities (International) Corporate Finance Company Limited

Hung Sing Securities Limited

Lead Securities (HK) Limited

SBI China Capital Financial Services Limited

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering 75,000,000 Hong Kong Offer Shares for subscription by members of the public in Hong Kong at the Offer Price on the terms and subject to the conditions set forth in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, our Shares in issue and our Shares to be issued pursuant to the Global Offering (including any additional Shares which may be allotted and issued under the Over-allotment Option) on the Main Board of the Stock Exchange and (ii) certain other conditions set forth in the Hong Kong Underwriting Agreement (including, among others, the Sole Global Coordinator (on behalf of the Underwriters) and us agreeing on the Offer Price), the Hong Kong Underwriters have severally but not jointly agreed to subscribe or procure subscribers for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering, upon and subject to the terms and conditions set forth in this prospectus, the related Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed, becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or to procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) by notice in writing to our Company with immediate effect, if at any time at or prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

(a) there has come to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriters that:

(i) any of the warranties or undertakings given by our Company, our Controlling Shareholders and our executive Directors (the "**Warrantors**") under the Hong Kong Underwriting Agreement was or is or becomes untrue, inaccurate, misleading or breached in any material respect when given or as repeated or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable; or

(ii) any statement contained in this prospectus, the Application Forms, the preliminary offering circular, the final offering circular (including all amendments and supplement), the post hearing information pack posted on the website of the Stock Exchange, the press announcement for the Global Offering, the formal notice, the roadshow materials, and/or any notices, announcements, advertisements, or other documents published or issued by or on behalf of our Company in respect of the Hong Kong Public Offering, the International Offering and/or the Global Offering (including any supplement or amendments thereto) (collectively, the "**Offer Related Documents**") was or is or has become untrue, incorrect, misleading or deceptive in any material respect, or that any forecasts, estimates, expressions of opinion, intention or expectation expressed in any of the Offer Related Documents is not in any material aspect fair and honest nor based on reasonable assumptions, when taken as a whole; or

(iii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the respective dates of the publication of the Offer Related Documents, constitute a misstatement or material omission therefrom; or

(iv) any statement contained in the submissions of our Company to the Stock Exchange and/or the SFC in connection with the application for listing of our Shares on the Stock Exchange and the Global Offering was or is or has become incomplete, untrue, incorrect or misleading in any material respect; or

(v) any material breach on the part of any of the Warrantors of any of the provisions of or any obligations under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(vi) any material breach of any of the obligations of any party (other than the Sole Sponsor, the Sole Global Coordinator or the Underwriters, if applicable) to any of the Deed of Indemnity, the price determination agreement, the receiving bank agreement, the agreement with the Hong Kong Branch Share Registrar and the agreement with the principal share registrar which has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering or the business or financial conditions or prospects of the Group; or

(vii) any matter, event, act or omission which gives rise to or is likely to give rise to any liability of any of the Warrantors pursuant to the indemnities given under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(viii) any material adverse change or development involving prospective material adverse change in the assets, liabilities, general affairs, management, business, shareholders' equity, earnings, profits, losses, results of operations, position or conditions (financial, trading or otherwise), performance or prospects of any member of our Group, whether or not arising in the ordinary course of business; or

(ix) the approval by the Listing Committee of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or

(x) our Company withdraws any of the Offer Related Documents or the Global Offering; or

(xi) any person (other than the Sole Sponsor) has withdrawn or sought to withdraw its consent to the issue of any of the Offer Related Documents with the inclusion of its reports, letters and/or opinions (as the case may be) and references to its name included in the form and context to which it respectively appears; or

(xii) (a) a petition or an order is presented for the winding-up or liquidation of any member of our Group; (b) any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement; (c) any resolution is passed for the winding-up of any member of our Group; or (d) a provisional liquidator, receiver or manager is appointed to take over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

(xiii) an authority or a political body or organisation in any of the Specific Jurisdictions has commenced any investigation or other action, or announced an intention to investigate or take other legal action, against any of our executive or non-executive Directors, which individually or in aggregate, resulted in a material adverse effect (as defined in the Hong Kong Underwriting Agreement); or

(xiv) any loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which would have a material adverse effect (as defined in the Hong Kong Underwriting Agreement), or

(xv) non-compliance of any statement or disclosure of this prospectus or the Application Forms or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or

(xvi) a material portion of the orders in the book-building process have been withdrawn, terminated or cancelled or the investment commitments by any cornerstone investors have been withdrawn, terminated or cancelled of or if any cornerstone investor is unlikely to fulfil its obligation under the respective agreement, or

(b) there shall develop, occur, exist or come into force or effect:

(i) any change, or development involving a prospective change or development, or any event or circumstance or series of events or circumstances which may result in any change or development involving a prospective change or deterioration (whether or not permanent), in local, regional, national or international, financial, economic, political, military, industrial, fiscal, legal, regulatory, currency, credit or market conditions or any monetary, trading or settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Specific Jurisdictions; or

(ii) the imposition or declaration of (a) any suspension, limitation or restriction on trading in shares or securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the Nasdaq Stock Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange or any other major international stock exchange; or (b) any general moratorium on or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Specific Jurisdictions; or

(iii) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgements, decrees or rulings of any court or governmental authority (the "**Laws**") or any change (whether or not forming part of a series of changes) or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or governmental authority in or affecting any of the Specific Jurisdictions; or

(iv) the imposition of economic, political or other sanctions or withdrawal of trading privileges, in whatever form, directly or indirectly, in or affecting any of the Specific Jurisdictions; or

(v) a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, material devaluation of the Hong Kong dollars or the Renminbi against any foreign currency), in or affecting any of the Specific Jurisdictions; or

(vi) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or trade war or other state of emergency or calamity or crisis involving or affecting any of the Specific Jurisdictions; or

(vii) any local, national, regional or international event, or series of events, in the nature of force majeure (including, without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts of war, acts of terrorism (whether or not responsibility has been claimed), calamity, crisis, economic sanction, strikes, riot, public disorder, civil commotion, fire, drought, flooding, severe snow or hail storms, explosion, earthquake, hurricanes, tornadoes, volcanic eruption, epidemic, pandemic, outbreak or escalations of disease (including but not limited to severe acute respiratory syndrome, avian or Swine flu, Middle East Respiratory Syndrome or coronavirus (including COVID-19 or such related or mutated forms)), radiation or chemical contaminations, terrorism, strike or lockout) in or affecting any of the Specific Jurisdictions; or

(viii) any change or development or event involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus or the occurrence of any such events therein; or

(ix) any litigation or claim of any third party being announced, threatened or instigated against any member of the Group or any of the Warrantors; or

(x) any Director and senior management members of our Company as set out in this prospectus being charged with an indictable offence or prohibited by operation of Law or is otherwise disqualified from being a director or taking part in the management of a company; or

(xi) the chairman, chief executive officer or chief financial officer of our Company or any Director vacating his office; or

(xii) the commencement by any administrative, governmental, regulatory, political or judicial body or organisation of any investigation, claims, proceedings or other action against a Director (in his/her capacity as such) or any member of our Group or an announcement by any administrative, governmental, regulatory, political or judicial body or organisation that it intends to take any such action; or

(xiii) save as disclosed in this prospectus (or otherwise disclosed in the legal opinions issued by the PRC Legal Adviser in connection with the Global Offering), a contravention by any member of our Group or any Directors of the Listing Rules or any applicable Laws; or

(xiv) a prohibition on our Company by any applicable authority for whatever reason from offering, allotting, issuing or selling any of our Shares (including the Offer Shares and any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or

(xv) non-compliance of this prospectus and the other Offer Related Documents or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or

(xvi) the issue or requirement to issue by our Company of a supplement or amendments to this prospectus and/or any other Offer Related Documents pursuant to the Companies (WUMP) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or SFC; or

(xvii) any change in the system under which the value of Hong Kong dollars is linked to that of U.S. dollars or a material devaluation of Hong Kong dollars or the RMB against any foreign currency; or

(xviii) any demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of our Group is liable prior to its stated maturity,

which in any such case, whether individually or in aggregate and in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) (1) has or will or may have a material adverse effect, whether directly or indirectly, on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial, trading or performance of any member of our Group or our Group taken as a whole; or (2) has or will or may have a material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering or dealings in the Offer Shares in the secondary market; or (3) makes or will or may make it inadvisable, inexpedient, impracticable, incapable or not commercially viable (a) for any part of the Hong Kong Underwriting Agreement, the International Underwriting Agreement, the Hong Kong Public Offering, the International Offering and/or the Global Offering to be performed or implemented or proceeded with as envisaged or which prevents the processing of applications and/or payments pursuant to the Global Offering; or (b) to proceed with or market the Global Offering or deliver the Offer Shares on the terms and in the manner contemplated in this prospectus.

For the purpose of the termination clause set forth above, the "**Specific Jurisdictions**" refers to the Cayman Islands, the BVI, Hong Kong, the PRC, the U.S., the United Kingdom, any member of the European Union, Japan, Singapore or any other jurisdiction relevant to any member of our Group or the Global Offering.

Indemnity

Each of our Company, our Controlling Shareholders and our executive Directors undertakes, jointly and severally, to fully and effectively indemnify and keep indemnified the Sole Sponsor, the Sole Global Coordinator, the Stabilising Manager and the Hong Kong Underwriters, their respective affiliates and their respective directors, officers, employees and agents and assignees for certain losses which they may suffer, including losses arising out of or in connection with their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company, our Controlling Shareholders or our executive Directors of the Hong Kong Underwriting Agreement.

Undertakings under the Hong Kong Underwriting Agreement

Undertaking by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, except pursuant to the Capitalisation Issue, the Global Offering (including the grant of, and the allotment and issue of Shares pursuant to the exercise of the Over-allotment Option) the grant of, and the allotment and issue of Shares pursuant to the exercise of, any options that may be granted under the Share Option Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "**First Six-Month Period**"), our Company will not, and will procure each member of our Group not to, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters (such consent not to be unreasonably withheld or delayed)), and unless in compliance with the requirements of the Listing Rules:

(a) offer, allot, issue, sell, accept subscription for, or contract or agree to allot, issue or sell, lend, grant or agree to grant any option, right or warrant over, or otherwise transfer or dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any member of our Group) or create any mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any other encumbrance of any kind ("**Encumbrance**") over, or agree to create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any member of our Group or any interest in the foregoing (including, without limitation, any voting or other right attaching to any such Shares or other securities of any member of our Group) or any securities convertible into or exchangeable for such Shares or securities (or any interest in or any voting or other right attaching to any Shares or other securities of any member of our Group) or repurchase any Shares except in compliance with the Listing Rules, the constitutional documents of our Company and the Code on Share Buy-Backs; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or other securities of our Company or any member of our Group, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase or subscribe, any Shares or other securities of our Company or any member of our Group) or any right attaching to such Shares or securities, including but not limited to any rights as to voting, dividend or distribution; or

(c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or

(d) offer or agree to any of the transactions specified in paragraphs (a), (b) or (c) above or publicly announce any intention to effect such transaction,

in each case, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities, in cash or otherwise, and whether or not the issue of such Shares or securities will be completed within the First Six-Month Period, provided that nothing stipulated under this undertaking shall prohibit the allotment of shares or securities by our subsidiaries to our Company or other members of our Group.

In the event that, during the period of the six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), our Company does any of the acts set out in paragraphs (a), (b), (c) or (d) above, our Company shall take all reasonable steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Our Company has further undertaken to the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that we will not, within the Second Six-Month Period, do any of the acts set out in paragraphs (a), (b), (c) or (d) above such that any of our Controlling Shareholders, directly or indirectly, would cease to be a controlling Shareholder (within the meaning defined in the Listing Rules).

Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Hong Kong Underwriters and our Company that:

(a) at any time during the First Six-Month Period, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) and/or the Stock Borrowing Agreement, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, he/it will not, and will procure that none of his/its associates (as defined in the Listing Rules) or companies controlled by him/it or any nominee or trustee holding in trust for him/it shall, directly or indirectly:

  (i) sell, offer, pledge, mortgage, assign, charge, contract or agree to sell or grant any option, right, or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of (other than any pledge, mortgage or charge of the issued Shares in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan), either directly or indirectly, conditionally or unconditionally, any of the share capital or other securities of our Company or any interest therein, beneficially owned by him/it or through such associates, companies, nominees or trustee as of the Listing Date (including, without limitation, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of the Company or any interest therein) (the "**Lock-up Securities**");

  (ii) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of any such Lock-up Securities or any interest therein, or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distributions;

  (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or

  (iv) offer or agree to, or publicly announce any intention to enter into, any transaction described in paragraph (i) or (ii) or (iii) above,

  whether any such transaction described above is to be settled by delivery of the Lock-up Securities, in cash or otherwise;

(b) at any time in the Second Six-month Period, he/it will not, and will procure the relevant registered holder(s) or his/its associates, companies, nominee or trustee will not, without the prior written consent of the Sole Global Coordinator, enter into any of the foregoing transactions in paragraph (a) above such that immediately following such transaction or upon the exercise or enforcement of such options, rights, interests or encumbrances, any of the Controlling Shareholder will cease to be a controlling Shareholder (as defined in the Listing Rules) of our Company;

(c) until the expiry of the Second Six-Month Period, in the event that he/it or the relevant registered holder(s) or his/its associates, companies, nominee or trustee enters into any such transactions in paragraph (a) above, he/it will take all reasonable steps to ensure that he/it or the relevant registered holder(s) or his/its associates, companies, nominee or trustee will not create a disorderly or false market for any shares or other securities of our Company;

(d) within the First Six-Month Period and the Second Six-month Period, he/it will:

    (i) if and when he/it pledges or charges, directly or indirectly, any Shares or other securities of our Company (including but not limited to rights as to voting, dividend or distribution in other securities of our Company) beneficially owned by him/it, immediately inform the Sole Sponsor, the Sole Global Coordinator and our Company in writing of such pledge or charge and the number of Shares or other securities of our Company so pledged or charged; and

    (ii) if and when he/it receives any indication, either verbal or written, from any pledgee or chargee that any Shares or other securities of our Company pledged or charged by him or it, will be sold, transferred or disposed of, immediately inform our Company, the Sole Sponsor, and the Sole Global Coordinator in writing of any such indication.

Restrictions and undertakings to the Stock Exchange pursuant to the Listing Rules

(A) Restrictions on our Company

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) will be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Capitalisation Issue, Global Offering (including pursuant to the exercise of the Over-allotment Option) and/or under certain circumstances provided under Rule 10.08 of the Listing Rules.

(B) Restrictions on and undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, except pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) and/or the Stock Borrowing Agreement, each of our Controlling Shareholders shall not, and shall procure the relevant registered holder(s) of our Shares will not:

(a) at any time during the period commencing from the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan) in respect of, any of the Shares in respect of which he/it is shown by this prospectus to be the beneficial owners; and

(b) at any time during the period of six months from the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan) in respect of, any of our Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder or a group of controlling shareholders (as defined in the Listing Rules).

Pursuant to note 3 of Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders, jointly as a group and severally, has irrevocably and unconditionally undertaken to the Stock Exchange and our Company that it will, from the date by reference to which disclosure of his/its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

(a) any pledges or charges of any Shares or securities of our Company beneficially owned by him/it in favour of any authorised institution pursuant to note (2) to Rule 10.07(2) of the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and

(b) any indication received by him/it, whether verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of our Controlling Shareholder and disclose such matters by way of an announcement in accordance with the Listing Rules as soon as possible.

THE INTERNATIONAL OFFERING

In connection with the International Offering, it is expected that our Company, our executive Directors and our Controlling Shareholders, will enter into the International Underwriting Agreement with, among others, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the International Underwriters.

Under the International Underwriting Agreement, it is expected that the International Underwriters would, subject to certain conditions, severally but not jointly, agree to subscribe for or purchase, or to procure subscribers to subscribe for or purchasers to purchase, their respective applicable proportions (set forth in the International Underwriting Agreement) of the International Offer Shares being offered pursuant to the International Offering.

Under the International Underwriting Agreement, our Company intends to grant to the International Underwriters, the Over-allotment Option, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters), pursuant to which the Sole Global Coordinator may, at any time from the Listing Date until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, require our Company to allot and issue up to 112,500,000 additional Shares, representing 15.0% of the initial number of our Offer Shares. These Shares will be allotted and issued at the Offer Price per Share (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% of the Offer Price) and will be for the purpose of covering over-allocations, if any, in the International Offering.

It is expected that the international Underwriting Agreement may be terminated on similar grounds as those in the Hong Kong Underwriting Agreement. Potential investors shall be reminded that, in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

TOTAL COMMISSIONS AND EXPENSES FOR THE GLOBAL OFFERING

The Hong Kong Underwriters will receive an underwriting commission of 2.5% on the aggregate Offer Price of the Hong Kong Offer Shares offered under the Hong Kong Public Offering (excluding any Hong Kong Offer Shares reallocated from the Hong Kong Public Offering to the International Offering but including any International Offer Shares reallocated from the International Offering to the Hong Kong Public Offering). For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters. In respect of the International Offering, the International Underwriters are expected to receive an underwriting commission of 2.5% of the aggregate Offer Price of all the International Offer Shares to be issued under the International Offering (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option).

In addition, our Company may, at its sole and absolute discretion, pay an incentive fee of up to 1% of the aggregate Offer Price in respect of the Offer Shares under the Global Offering (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option) to the Sole Global Coordinator (for itself and on behalf of the Underwriters) in recognition of their services.

Assuming that the Offer Price is HK$1.715 per Share (being the mid-point of the indicative Offer Price range stated in this prospectus) and the Over-allotment Option is not exercised, the aggregate commissions and fees payable by us, together with the Stock Exchange listing fee, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to be approximately HK$91.1 million in total.

UNDERWRITERS' INTERESTS IN OUR COMPANY

Except for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right or options (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set forth in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

The Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Capitalisation Issue and the Global Offering.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering comprises:

(a) the Hong Kong Public Offering of initially 75,000,000 Shares (subject to reallocation) in Hong Kong as described in the paragraphs headed "The Hong Kong Public Offering" in this section; and

(b) the International Offering of initially 675,000,000 Shares (subject to reallocation and the Over-Allotment Option) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S as described below in the paragraphs headed "The International Offering" in this section.

Investors may either apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for the International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 25.0% of the issued share capital of our Company immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of the issued share capital of our Company immediately following the completion of the Global Offering.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offering (subject to agreement as to pricing and satisfaction or waiver of the other conditions provided in the Hong Kong Underwriting Agreement and described in the paragraph headed "Conditions of the Global Offering" below) for the subscription in Hong Kong of, initially, 75,000,000 Offer Shares at the Offer Price (representing 10% of the total number of the Offer Shares initially available under the Global Offering (assuming the Over-Allotment Option is not exercised)). Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering described below, the Hong Kong Offer Shares will represent approximately 2.5% of our enlarged issued share capital immediately after completion of the Global Offering (assuming the Over-Allotment Option is not exercised). The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors.

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and that those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools (subject to adjustment of odd lot size) for allocation purposes:

- Pool A: the Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK$5,000,000 (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and

- Pool B: the Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK$5,000,000 (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the total value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. For the purpose of this subsection only, the "subscription price" for the Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. We will reject multiple or suspected multiple applications within pool A or pool B or between the two pools. In addition, any application for more than 50% of the 75,000,000 Offer Shares initially included in the Hong Kong Public Offering (that is, 37,500,000 Offer Shares) will be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules and the Stock Exchange's Guidance Letter HKEX-GL91-18 require a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

(a) In the event that the International Offer Shares are fully subscribed or oversubscribed under the International Offering:

(i) if the Hong Kong Offer Shares are undersubscribed, the Sole Global Coordinator (for itself and on behalf of the other Underwriters) may, at its sole and absolute discretion (but shall not be under any obligation), reallocate all or any of the unsubscribed Shares from the Hong Kong Public Offering to the International Offering;

(ii) if the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for under the Hong Kong Public Offering representing less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 75,000,000 Offer Shares may be allocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will increase up to 150,000,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering (before the exercise of any Over-allotment Option);

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 150,000,000 Offer Shares will be allocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 225,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering (before the exercise of any Over-allotment Option);

(iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 225,000,000 the number of Offer Shares to be allocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 300,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering (before the exercise of any Over-allotment Option); and

(v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 300,000,000 the number of Offer Shares to be allocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 375,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering (before the exercise of any Over-allotment Option).

(b) In the event that the International Offer Shares are undersubscribed under the International Offering:

(i) if the Hong Kong Offer Shares are undersubscribed, the Global Offering shall not proceed unless fully underwritten by the Underwriters pursuant to the Underwriting Agreements; and

(ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times, then up to 75,000,000 Offer Shares may be allocated to the Hong Kong Public Offering from the International Offering, so that the total number of Hong Kong Offer Shares available for subscription under the Hong Kong Public Offering will increase up to 150,000,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering (before the exercise of any Over-allotment Option).

Pursuant to the Stock Exchange's Guidance Letter HKEX-GL91-18, in the event of reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering in the circumstances where (xx) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (yy) the International Offer Shares are undersubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at HK$1.57 per Offer Share, being the bottom end of the indicative Offer Price range stated in this prospectus and the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double of the number of Offer Shares initially allocated to the Hong Kong Public Offering (i.e. 150,000,000 Offer Shares).

Subject to the above, the Sole Global Coordinator (for itself and on behalf of the Underwriters) shall have the discretion to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. Details of any reallocation of Offer Shares between the Hong Kong

Public Offering and the International Offering will be disclosed in the results announcement of the Hong Kong Public Offering, which is expected to be published on Monday, 28 December 2020.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. We and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have indicated interest in or have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have applied for or have received Offer Shares in the Hong Kong Public Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$1.86 per Offer Share in addition to the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraphs headed "—Pricing" below, is less than the maximum Offer Price of HK$1.86 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for Hong Kong Offer Shares".

THE INTERNATIONAL OFFERING

The number of the Offer Shares to be initially offered for subscription under the International Offering will be 675,000,000 Offer Shares, representing 90% of the Offer Shares initially available under the Global Offering and approximately 22.5% of our enlarged issued share capital immediately after completion of the Global Offering and the Capitalisation Issue (before any exercise of the Over-allotment Option).

Allocation

The International Offering will include selective marketing of Offer Shares to certain professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

Allocation of the International Offer Shares to investors under the International Offering will be effected in accordance with the book-building process described in the paragraphs headed "— Pricing" in this section below and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is likely to buy further, and/or hold or sell its International Offer Shares after the Listing. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of an appropriate shareholder base to our benefit and the benefit of our Shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application of Hong Kong Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the reallocation arrangement as described in the paragraphs headed "The Hong Kong Public Offering — Reallocation" above, the exercised of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters).

The Over-allotment Option gives the International Underwriters the right, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date until 30 days from the last day for lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 112,500,000 additional Shares, representing in aggregate 15.0% of the total number of Offer Shares initially available under the Global Offering, at the same price per Offer Share under the International Offering to cover, among other things, over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of the total Shares in issue immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, we will make an announcement.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer price of the securities. Such transactions may be effected in all jurisdiction where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the stabilisation price is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate Shares or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period which begins on the Listing Date and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilising period is expected to expire on Sunday, 17 January 2021. However, there is no obligation on the Stabilising Manager, or its affiliates or any person acting for it to conduct any such stabilising action. Such stabilising action, if taken, may be discontinued at any time, and must be brought to an end after a limited period. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold under the Over-allotment Option, namely 112,500,000 Shares, which is 15.0% of the Offer Shares initially available under the Global Offering.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes (a) primary stabilisation, including purchasing, or agreeing to purchase, any of the Shares or offering or attempting to do so for the purpose of preventing or minimising any reduction in the market price of the Shares, and (b) ancillary stabilisation in connection with any primary stabilising action, including: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or agreeing to purchase Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) selling or agreeing to sell Shares to liquidate a long position held as a result of those purchases or subscriptions; and (v) offering or attempting to do anything described in (ii), (iii) or (iv). The Stabilising Manager may take any one or more of the stabilising actions described above.

Prospective applicants for and investors in the Offer Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in our Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilising Manager or any person acting for it will maintain such a long position;

- liquidation of any such long position by the Stabilising Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of our Shares;

- no stabilising action can be taken to support the price of our Shares for longer than the stabilisation period, which will begin on the Listing Date, and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;

- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and

- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure to procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

Stock Borrowing Arrangement

To facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilising Manager may choose to borrow, whether on its own or through its affiliates, up to 112,500,000 Shares, representing 15% of the Offer Shares (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option) from Pure Cypress pursuant to the Stock Borrowing Agreement.

Such stock borrowing arrangement under the Stock Borrowing Agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. Such stock borrowing arrangement is fully described in this Prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option. The same number of Offer Shares so borrowed must be returned to Pure Cypress or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option having been issued by our Company. No payment will be made to Pure Cypress by the Stabilising Manager or its agent in relation to such stock borrowing arrangement.

PRICING

Determination of Offer Price

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Friday, 18 December 2020 and in any event on or before Sunday, 27 December 2020, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter. The Offer Price will not be more than HK$1.86 per Offer Share and is expected to be not less than HK$1.57 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day of lodging applications under the Hong Kong Public Offering.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Global Coordinator (for itself and on behalf of the Underwriters), may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares in the Global Offering and/or the indicative Offer Price range below that described in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the websites of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.jxhmgroup.com** notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range. Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon among the Sole Global Coordinator (on behalf of the Underwriters) and us will be fixed within such revised offer price range. Applicant should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the last day for lodging applicants under the Hong Kong Public Offering. In such notice, we will also confirm or revise, as appropriate, the working capital statement as currently disclosed in the section headed "Financial Information — Working Capital Sufficiency", the offering statistics as currently disclosed in the section headed "Summary", the use of proceeds in the section headed "Future Plans and Use of Proceeds" and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and the Offer Price, if agreed upon with our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range stated in this prospectus.

If the number of Offer Shares and/or the indicative Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Sole Global Coordinator may at its discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

If, for any reason, we are unable to reach an agreement with the Sole Global Coordinator (on behalf of the Underwriters) on the final Offer Price by Sunday, 27 December 2020, the Global Offering will not proceed and will lapse.

We expect to publish an announcement of the final Offer Price, together with the level of interest in the International Offering and the level of applications and the basis of allocation of the Hong Kong Offer Shares, on Monday, 28 December 2020 in the manner set forth in the section headed "How to apply for Hong Kong Offer Shares — 11. Publication of Results".

Price Payable on Application

If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum Offer Price of HK$1.86 per Offer Share plus a 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy. This means that, for every board lot of 2,000 Offer Shares, you should pay HK$3,757.49 at the time of your application.

If the Offer Price is lower than the maximum Offer Price of HK$1.86, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. You may find further details in the section headed "How to Apply for Hong Kong Offer Shares".

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters. The Hong Kong Public Offering and the International Offering are subject to the conditions described in the section headed "Underwriting". In particular, we and the Sole Global Coordinator (for itself and on behalf of the Underwriters) must agree on the final Offer Price for the Global Offering. The Hong Kong Underwriting Agreement was entered into on Friday, 11 December 2020 and, is subject to an agreement on the final Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us for purposes of the Hong Kong Public Offering. The International Underwriting Agreement (including the agreement on the final Offer Price among us and the Sole Global Coordinator (for itself and on behalf of the International Underwriters for purposes of the International Offering) is expected to be entered into on Friday, 18 December 2020, being the Price Determination Date. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are inter-conditional upon each other.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- the Listing Committee granting the listing of and permission to deal in our Shares in issue and to be issued as described in this prospectus (including any additional Shares issuable pursuant to the exercise of the Over-allotment Option and any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), and such listing and permission not having been subsequently revoked prior to the commencement of dealings in our Shares on the Stock Exchange;

- the Offer Price having been duly determined between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and

- the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Sunday, 27 December 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the International Offering and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering on the websites of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.jxhmgroup.com** on the next day following such lapse. In such situation, we will return all application monies to the applicants, without interest and on the terms described in the section headed "How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies". In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving banker or other banks licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)(as amended).

We expect to despatch share certificates for the Offer Shares on or before Monday, 28 December 2020. However, these share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting" has not been exercised.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on the Listing Date, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on the Listing Date. The Shares will be traded in board lots of 2,000 shares each. The stock code of the Shares is 2127.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at **www.hkeipo.hk** or the **IPO App**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- are an associate or a close associate (as defined in the Listing Rules) of any of the above;
- are a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **HK eIPO White Form** service at **www.hkeipo.hk** or the **IPO App**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Monday, 14 December 2020 until 12:00 noon on Friday, 18 December 2020 from:

(i) any of the following offices of the Hong Kong Underwriters:

China Securities (International) Corporate Finance Company Limited	18/F Two Exchange Square 8 Connaught Place Central Hong Kong
Hung Sing Securities Limited	Unit 2505, 25/F, West Tower Shun Tak Centre 200 Connaught Road Central Hong Kong

Lead Securities (HK) Limited	Unit A, 23/F, The Wellington 198 Wellington Street Sheung Wan Hong Kong
SBI China Capital Financial Services Limited	4/F, Henley Building No. 5 Queen's Road Central Hong Kong

(ii) any of the following branches of the following receiving bank:

Bank of China (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island	Des Voeux Road West Branch	111–119 Des Voeux Road West, Hong Kong
Kowloon	Jordan Road Branch	1/F, Sino Cheer Plaza, 23–29 Jordan Road, Kowloon
New Territories	Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long, New Territories

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Monday, 14 December 2020 until 12:00 noon on Friday, 18 December 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — HUISEN HOUSEHOLD PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Monday, 14 December 2020 — 9:00 a.m. to 4:00 p.m.
Tuesday, 15 December 2020 — 9:00 a.m. to 4:00 p.m.
Wednesday, 16 December 2020 — 9:00 a.m. to 4:00 p.m.
Thursday, 17 December 2020 — 9:00 a.m. to 4:00 p.m.
Friday, 18 December 2020 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 18 December 2020, the last application day or such later time as described in the paragraph headed "10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;

(ii) agree to comply with the Companies (WUMP) Ordinance and the Articles;

(iii) confirm that you have read the terms and conditions and application procedures set forth in this prospectus and in the Application Form(s) and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form(s);

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfiled the criteria mentioned in the paragraph headed "Personal collection" in this section to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by anyone as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as his agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria specified under the paragraphs headed "2. Who can apply" in this section above may apply through the **HK eIPO White Form** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk** or the **IPO App**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website at **www.hkeipo.hk** or the **IPO App**. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website or the **IPO App**, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for submitting applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** or the **IPO App** (24 hours daily, except on Friday, 18 December 2020, the last application day) from 9:00 a.m. on Monday, 14 December 2020 until 11:30 a.m. on Friday, 18 December 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 18 December 2020 or such later time under the paragraph headed "10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

No multiple applications

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a copy of this prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Branch Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as his agent;

- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set forth in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set forth in any supplement to this prospectus;

- agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (WUMP) Ordinance and the Articles; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, 14 December 2020	**—**	**9:00 a.m. to 8:30 p.m.**
Tuesday, 15 December 2020	**—**	**8:00 a.m. to 8:30 p.m.**
Wednesday, 16 December 2020	**—**	**8:00 a.m. to 8:30 p.m.**
Thursday, 17 December 2020	**—**	**8:00 a.m. to 8:30 p.m.**
Friday, 18 December 2020	**—**	**8:00 a.m. to 12:00 noon**

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 14 December 2020 until 12:00 noon on Friday, 18 December 2020 (24 hours daily, except on Friday, 18 December 2020, the last application day). The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 18 December 2020, the last application date or such later time under the paragraphs headed "10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Personal data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, our Hong Kong Branch Share Registrar, the receiving banker, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon, Friday, 18 December 2020, or such later time as described in the paragraphs headed "10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange. "Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set forth in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk** or the **IPO App**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed "Structure and Conditions of the Global Offering — Pricing".

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; or
- Extreme Conditions.

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 18 December 2020. Instead they will open between 11:45 a.m. and 12:00 noon, on the next Business Day which does not have either of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 18 December 2020 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on or before Monday, 28 December 2020 on our Company's website at **www.jxhmgroup.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.jxhmgroup.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than Monday, 28 December 2020;
- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** (alternatively: **www.hkeipo.hk/IPOResult**) or from "Allotment Result" function in the **IPO App** with a "search by ID/Business Registration Number" function on a 24-hour basis from 8:00 a.m. on Monday, 28 December 2020 to 12:00 midnight on Sunday, 3 January 2021;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, 28 December 2020 to Thursday, 31 December 2020;

- in the special allocation results booklets which will be available for inspection during opening hours on Monday, 28 December 2020, Tuesday, 29 December 2020 and Wednesday, 30 December 2020 at all the receiving bank's designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, our Hong Kong Branch Share Registrar, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website at **www.hkeipo.hk** or the **IPO App**;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;

- our Company or the Sole Global Coordinator believes that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$1.86 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfiled in accordance with the section headed "Structure and Conditions of the Global Offering — Conditions of the Global Offering" or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Monday, 28 December 2020.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Monday, 28 December 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 28 December 2020 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, 28 December 2020 by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of your refund cheques(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, 28 December 2020 by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, 28 December 2020 or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

  For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS Investor Participant*

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph headed "Publication of results" in this section above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Monday, 28 December 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 28 December 2020 or such other date as notified by our Company as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on **HK eIPO White Form** service on or before Monday, 28 December 2020.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 28 December 2020, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraphs headed "11. Publication of Results" above on Monday, 28 December 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 28 December 2020 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 28 December 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 28 December 2020.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountants, BDO Limited, Certified Public Accountants, for the purpose of incorporation in this prospectus.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION

TO THE DIRECTORS OF HUISEN HOUSEHOLD INTERNATIONAL GROUP LIMITED AND CHINA SECURITIES (INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED

INTRODUCTION

We report on historical financial information of Huisen Household International Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages I-4 to I-78, which comprises the consolidated statements of financial position as at 31 December 2017, 2018, 2019 and 30 June 2020 and the statements of the financial position of the Company as at 31 December 2018, 2019 and 30 June 2020, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018, 2019 and for the six months ended 30 June 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-78 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 14 December 2020 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1(c) and 2 to the Historical Financial Information, respectively and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circulars Reporting Engagements 200 "Accountants' Reports on

Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1(c) and 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2018, 2019 and 30 June 2020, the Group's financial position as at 31 December 2017, 2018, 2019 and 30 June 2020, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1(c) and 2 to the Historical Financial Information, respectively.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statements of change in equity and the consolidated statements of cash flow for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1(c) and 2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1(c) and 2 to the Historical Financial Information, respectively.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 15 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

BDO Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659
Hong Kong

14 December 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

1. Consolidated Statements of Profit or Loss and Other Comprehensive Income

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	7	2,823,880	3,327,221	3,719,066	1,753,025	1,630,742
Cost of sales		(2,158,610)	(2,542,383)	(2,835,754)	(1,332,832)	(1,264,454)
Gross profit		665,270	784,838	883,312	420,193	366,288
Other revenue	8	10,088	9,217	5,520	2,989	3,030
Other gains and losses	9	(51,970)	26,278	1,652	(10,734)	7,887
Distribution and selling expenses		(51,706)	(57,798)	(65,445)	(32,007)	(31,954)
Administrative expenses		(84,314)	(80,662)	(84,219)	(41,302)	(37,046)
Equity-settled share-based payment	13	—	(92,425)	—	—	—
Provision of impairment loss recognised on trade receivables, net	21	(231)	(526)	(858)	(64)	(2,593)
Finance costs	10	(81,255)	(101,238)	(59,790)	(32,991)	(21,672)
Listing expenses		(359)	(11,154)	(10,097)	(5,064)	(1,906)
Profit before income tax expense	11	405,523	476,530	670,075	301,020	282,034
Income tax expense	14	(70,742)	(91,066)	(101,772)	(47,531)	(42,839)
Profit for the year/period		334,781	385,464	568,303	253,489	239,195
Profit for the year/period attributable to:						
Owners of the Company		334,781	385,464	568,303	253,489	239,195

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit for the year/period	334,781	385,464	568,303	253,489	239,195
Other comprehensive income, net of tax	—	—	—	—	—
Items that may be reclassified subsequently to profit or loss:	—	—	—	—	—
Exchange difference arising on translation of foreign operations	—	—	—	—	—
Other comprehensive income for the year/period	—	—	—	—	—
Total comprehensive income for the year/period	334,781	385,464	568,303	253,489	239,195
Total comprehensive income for the year/period attributable to:					
Owners of the Company	334,781	385,464	568,303	253,489	239,195

2. Consolidated Statements of Financial Position

	Notes	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 31 December 2019 RMB'000	As at 30 June 2020 RMB'000
Non-current assets					
Property, plant and equipment	17	1,137,982	1,062,944	959,525	957,258
Right-of-use assets	18	—	—	25,186	23,203
Prepaid land lease payments	19	23,379	22,880	—	—
Prepayments for acquisition of property, plant and equipment and land use rights	22	5,990	12,000	30,784	50
Other receivables	22	681	3,057	1,758	—
Total non-current assets		1,168,032	1,100,881	1,017,253	980,511
Current assets					
Inventories	20	290,457	228,620	171,430	142,067
Trade receivables	21	774,485	879,210	1,049,958	779,057
Prepayments, deposits and other receivables	22	122,329	99,548	61,894	47,967
Prepaid land lease payments	19	517	508	—	—
Amount due from a shareholder	24	—	—	—	4
Amount due from a related party	33	—	1,500	—	—
Deferred tax assets	27	1,837	1,355	789	1,179
Restricted bank deposits	25	34,500	42,973	1,240	500
Cash and cash equivalents	26	759,466	906,538	1,084,636	1,528,105
Total current assets		1,983,591	2,160,252	2,369,947	2,498,879
Total assets		3,151,623	3,261,133	3,387,200	3,479,390
Current liabilities					
Trade and bills payables	28	259,598	266,831	270,981	184,651
Other payables and accruals	29	89,888	53,975	64,761	44,979
Borrowings	30	609,726	478,056	529,615	494,859
Puttable shares payable	31	369,404	349,452	—	—
Lease liabilities	32	—	—	2,422	617
Amount due to an ultimate holding company	23	—	4	13	24
Amounts due to shareholders	24	23,241	—	—	356
Amount due to a related party	33	12,474	—	—	—
Income tax payable		31,252	22,005	24,110	24,930
Total current liabilities		1,395,583	1,170,323	891,902	750,416
Net current assets		588,008	989,929	1,478,045	1,748,463
Total assets less current liabilities		1,756,040	2,090,810	2,495,298	2,728,974
Non-current liabilities					
Borrowings	30	312,061	290,145	126,401	120,882
Total non-current liabilities		312,061	290,145	126,401	120,882
NET ASSETS		1,443,979	1,800,665	2,368,897	2,608,092
Capital and reserves attributable to the owners of the company					
Share capital	34	—	9	9	9
Reserves	35	1,443,979	1,800,656	2,368,888	2,608,083
TOTAL EQUITY		1,443,979	1,800,665	2,368,897	2,608,092

3. Statement of Financial Position of the Company

	Notes	As at 31 December 2018 *RMB'000*	As at 31 December 2019 *RMB'000*	As at 30 June 2020 *RMB'000*
Non-current asset				
Interest in a subsidiary	37	—*	—*	—*
Total non-current asset		—*	—*	—*
Current assets				
Cash and cash equivalents		1	2	3
Amount due from a subsidiary		7	11	19
Total current assets		8	13	22
Total assets		8	13	22
Current liability				
Amount due to an ultimate holding company		4	13	24
Total current liability		4	13	24
Net current asset/(liability)		4	—	(2)
Total assets less current liability		4	—	(2)
NET ASSETS/(LIABILITY)		4	—	(2)
Capital and reserves attributable to the owners of the Company				
Share capital	34	9	9	9
Accumulated losses	35	(5)	(9)	(11)
Total equity/(deficiency in equity)		4	—	(2)

* *Represents amount less than RMB1,000.*

4. Consolidated Statements of Changes in Equity

	Attributable to owners of the Company							
	Share capital	Capital reserve	Statutory reserve	Merger reserve	Translation reserve	Retained earnings	Total	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 34)	*(Note 35)*	*(Note 35)*	*(Note 35)*	*(Note 35)*	*(Note 35)*		
As at 1 January 2017	—	—	98,504	147,594	—	861,888	1,107,986	1,107,986
Capital contributions from shareholders	—	—	—	1,212	—	—	1,212	1,212
Transfer from retained earnings to statutory reserve	—	—	34,773	—	—	(34,773)	—	—
Profit for the year	—	—	—	—	—	334,781	334,781	334,781
As at 31 December 2017 and 1 January 2018	—	—	133,277	148,806	—	1,161,896	1,443,979	1,443,979
Shares issued for cash consideration	9	—	—	—	—	—	9	9
Equity-settled share-based transactions	—	92,425	—	—	—	—	92,425	92,425
Acquisition of subsidiaries upon reorganisation *(Note)*	—	—	—	(121,212)	—	—	(121,212)	(121,212)
Transfer from retained earnings to statutory reserve	—	—	51,141	—	—	(51,141)	—	—
Profit for the year	—	—	—	—	—	385,464	385,464	385,464
As at 31 December 2018 and 1 January 2019	9	92,425	184,418	27,594	—	1,496,219	1,800,665	1,800,665
Adjustment upon initial adoption of HKFRS 16	—	—	—	—	—	(71)	(71)	(71)
As at 1 January 2019, adjusted	9	92,425	184,418	27,594	—	1,496,148	1,800,594	1,800,594
Transfer from retained earnings to statutory reserve	—	—	56,771	—	—	(56,771)	—	—
Profit for the year	—	—	—	—	—	568,303	568,303	568,303
As at 31 December 2019 and 1 January 2020	9	92,425	241,189	27,594	—	2,007,680	2,368,897	2,368,897
Transfer from retained earnings to statutory reserve	—	—	23,352	—	—	(23,352)	—	—
Profit for the period	—	—	—	—	—	239,195	239,195	239,195
As at 30 June 2020	9	92,425	264,541	27,594	—	2,223,523	2,608,092	2,608,092
Balance as at 1 January 2019	9	92,425	184,418	27,594	—	1,496,219	1,800,665	1,800,665
Adjustment upon initial adoption of HKFRS 16	—	—	—	—	—	(71)	(71)	(71)
As at 1 January 2019, adjusted	9	92,425	184,418	27,594	—	1,496,148	1,800,594	1,800,594
Transfer from retained earnings to statutory reserve	—	—	26,184	—	—	(26,184)	—	—
Profit for the period	—	—	—	—	—	253,489	253,489	253,489
As at 30 June 2019 (Unaudited)	9	92,425	210,602	27,594	—	1,723,453	2,054,083	2,054,083

Note:

In applying merger accounting, the financial statements of the combining entities or businesses under common control for the reporting and comparative periods are included in the merger reserve of the consolidated financial statements of the Company as if the combination had occurred from the date when the combining entities, or businesses first came under the control of the controlling party or parties. Subsequent to the combination, during 2018, Huisen Holding Investment (Ganzhou) Co., Limited ("Huisen Holding (GZ)"), a wholly-owned subsidiary of the Company, acquired the 92.5% and 0.9% of equity interests of Ganzhou Huiming Wood Industry Co., Limited ("Huiming Wood") from Mr. Zeng Ming ("Mr. Zeng") and Ms. Zeng Minglan ("Ms. Zeng ML") at an aggregate consideration of approximately RMB121 million, which represent the registered share capital of Huiming Wood originally held by Mr. Zeng and Ms. Zeng ML (the "Transaction"). In consolidating the financial statements of Huiming Wood into the Group, 93.4% of the Share capital of Huiming Wood were eliminated on the consolidation level as at the date of the Transaction and thereby resulted in a decrease of approximately RMB121 million in total equity. Given that the such decrease in total equity represent the consideration paid by the Group to Mr. Zeng and Ms. Zeng ML, being the then shareholders of Huiming Wood, under the Transaction, such payment is treated as a deemed distribution of the Group.

5. Consolidated Statements of Cash Flows

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cash flows from operating activities					
Profit before income tax expense	405,523	476,530	670,075	301,020	282,034
Adjustments for:					
Amortisation of prepaid land lease payments	517	508	—	—	—
Depreciation of property, plant and equipment	75,317	98,542	98,528	49,244	50,372
Depreciation of right-of-use assets	—	—	3,967	1,983	1,983
Finance costs	81,255	101,238	59,790	32,991	21,672
Interest income	(2,663)	(3,456)	(3,400)	(1,511)	(2,018)
Provision of impairment loss recognised on trade receivables, net	231	526	858	64	2,651
Gain on disposal of subsidiaries	(1,008)	—	—	—	—
Equity-settled share-based payment	—	92,425	—	—	—
Loss on disposal of property, plant and equipment	4,318	4,382	1,195	499	2,988
Operating profits before working capital changes	563,490	770,695	831,013	384,290	359,682
(Increase)/decrease in inventories	(113,119)	61,837	57,190	60,041	29,363
(Increase)/decrease in trade receivables	(64,901)	(105,251)	(171,606)	(12,785)	268,250
(Increase)/decrease in prepayments, deposits and other receivables	(38,914)	22,781	39,374	34,799	15,922
(Decrease)/increase in trade and bills payables	(38,783)	7,233	4,150	(41,909)	(86,330)
Increase/(decrease) in other payables and accruals	40,192	(35,913)	10,786	(6,942)	(19,782)
Decrease in amount due to a related party	(9,487)	—	—	—	—
Cash generated from operations	338,478	721,382	770,907	417,494	567,105
Income tax paid	(62,560)	(99,831)	(99,101)	(40,791)	(42,409)
Net cash generated from operating activities	275,918	621,551	671,806	376,703	524,696

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cash flows from investing activities						
Purchases of property, plant and equipment		(561,013)	(27,896)	(9,658)	(7,408)	(51,093)
Prepayments utilised in/refunded in/(paid for) acquisition of property, plant and equipment and land use rights		458,619	(6,010)	(18,784)	12,000	30,734
Proceeds from disposal of property, plant and equipment		12,706	10	13,354	13,354	—
Acquisition of prepaid land lease payments		(808)	—	—	—	—
Decrease/(increase) in restricted bank deposits		7,028	(8,473)	41,733	29,155	740
Proceeds from disposal of subsidiaries, net of cash disposed	36	19,003	—	—	—	—
Acquisition of subsidiaries upon reorganisation		—	(121,212)	—	—	—
Advance to an ultimate holding company		—	(9)	—	—	—
Advance to a shareholder		—	—	—	—	(4)
Repayment from an ultimate holding company		—	9	—	—	—
Repayment from a shareholder		50,000	—	—	—	—
Repayment from a related party		58,000	—	—	—	—
Interest received		2,663	3,456	3,400	1,511	2,018
Net cash generated from/(used in) investing activities		46,198	(160,125)	30,045	48,612	(17,605)

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cash flows from financing activities					
Repayment of principal portion of the lease liabilities	—	—	(3,414)	(1,675)	(1,805)
Proceeds from borrowings	1,414,850	766,485	383,994	261,787	37,000
Repayment of borrowings	(1,192,289)	(920,071)	(496,179)	(236,253)	(77,275)
Proceeds from puttable shares payable	350,000	—	—	—	—
Repayment on puttable shares payable	—	(35,000)	(315,000)	(315,000)	—
Security deposits paid for borrowings	(681)	(2,376)	(421)	(199)	(237)
Interest paid	(61,851)	(86,190)	(94,242)	(67,443)	(21,672)
Advance from an ultimate holding company	—	4	9	8	11
Advance from a related party	—	—	1,500	1,500	—
Advances from shareholders	23,241	—	1	1	356
Repayment of advances from shareholders	—	(23,241)	(1)	—	—
Capital contributions from shareholders	1,212	—	—	—	—
Repayment to related parties/ a related party	(352,342)	(13,974)	—	—	—
Proceeds from issue of ordinary shares	—	9	—	—	—
Net cash generated from/(used in) financing activities	182,140	(314,354)	(523,753)	(357,274)	(63,622)
Net increase in cash and cash equivalents	504,256	147,072	178,098	68,041	443,469
Cash and cash equivalents at the beginning of year/period	255,210	759,466	906,538	906,538	1,084,636
Cash and cash equivalents at the end of year/period	759,466	906,538	1,084,636	974,579	1,528,105
Analysis of the balances of cash and cash equivalents:					
Cash and bank balances	759,466	906,538	1,084,636	974,579	1,528,105

Reconciliation of liabilities arising from financing activities

	Borrowings	Puttable shares payable	Amounts due to shareholders/ a shareholder	Amount due to an ultimate holding company	Amounts due (from)/ to related parties/a related party	Lease liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2017	699,226	—	—	—	364,816	—
Changes from cash flow:						
Proceeds from new borrowings	1,414,850	—	—	—	—	—
Proceeds from puttable shares	—	350,000	—	—	—	—
Imputed interest paid	—	(23,229)	—	—	—	—
Repayment of borrowings	(1,192,289)	—	—	—	—	—
Advances from shareholders	—	—	23,241	—	—	—
Repayment to related parties	—	—	—	—	(352,342)	—
	921,787	326,771	23,241	—	12,474	—
Other changes:						
Imputed interest incurred on puttable shares	—	42,633	—	—	—	—
As at 31 December 2017	921,787	369,404	23,241	—	12,474	—

Reconciliation of liabilities arising from financing activities — continued

	Borrowings	Puttable shares payable	Amounts due to shareholders/ a shareholder	Amount due to an ultimate holding company	Amounts due (from)/ to related parties/a related party	Lease liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017	921,787	369,404	23,241	—	12,474	—
Changes from cash flow:						
Proceeds from new borrowings	766,485	—	—	—	—	—
Imputed interest paid	—	(29,777)	—	—	—	—
Repayment of borrowings	(920,071)	—	—	—	—	—
Repayment of principal during the year	—	(35,000)	—	—	—	—
Advances from shareholders	—	—	(23,241)	—	—	—
Advances from ultimate holding company	—	—	—	4	—	—
Repayment to related parties	—	—	—	—	(12,474)	—
Advances to related parties	—	—	—	—	(1,500)	—
	768,201	304,627	—	4	(1,500)	—
Other changes:						
Imputed interest incurred on puttable shares	—	44,825	—	—	—	—
As at 31 December 2018	768,201	349,452	—	4	(1,500)	—
Adjustment upon initial adoption of HKFRS 16	—	—	—	—	—	5,836
As at 1 January 2019, adjusted	768,201	349,452	—	4	(1,500)	5,836
Changes from cash flow:						
Proceeds from new borrowings	383,994	—	—	—	—	—
Imputed interest paid	—	(37,720)	—	—	—	—
Repayment of borrowings	(496,179)	—	—	—	—	—
Repayment of lease liabilities	—	—	—	—	—	(3,751)
Repayment of principal during the year	—	(315,000)	—	—	—	—
Repayment to shareholders	—	—	(1)	—	—	—
Advances from shareholders	—	—	1	—	—	—
Advance from an ultimate holding company	—	—	—	9	—	—
Advance from a related party	—	—	—	—	1,500	—
	656,016	(3,268)	—	13	—	2,085
Other changes:						
Imputed interest incurred on puttable shares	—	3,268	—	—	—	—
Imputed interest incurred on lease payments	—	—	—	—	—	337
As at 31 December 2019	656,016	—	—	13	—	2,422

Reconciliation of liabilities arising from financing activities — continued

	Borrowings	Puttable shares payable	Amounts due to shareholders/ a shareholder	Amount due to an ultimate holding company	Amounts due (from)/ to related parties/a related party	Lease liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2020	656,016	—	—	13	—	2,422
Changes from cash flow:						
Proceeds from new borrowings	37,000	—	—	—	—	—
Repayment of borrowings	(77,275)	—	—	—	—	—
Repayment of lease liabilities	—	—	—	—	—	(1,864)
Advances from shareholders	—	—	356	—	—	—
Advance from an ultimate holding company	—	—	—	11	—	—
	615,741	—	356	24	—	558
Other changes:						
Imputed interest incurred on lease payments	—	—	—	—	—	59
As at 30 June 2020	615,741	—	356	24	—	617
As at 31 December 2018	768,201	349,452	—	4	(1,500)	—
Adjustment upon initial adoption of HKFRS 16	—	—	—	—	—	5,836
As at 1 January 2019, adjusted	768,201	349,452	—	4	(1,500)	5,836
Changes from cash flow:	—	—	—	—	—	
Proceeds from new borrowings	261,787	—	—	—	—	—
Imputed interest paid	—	(37,720)	—	—	—	
Repayment of borrowings	(236,253)	—	—	—	—	—
Repayment of lease liabilities	—	—	—	—	—	(1,876)
Repayment of principal during the period	—	(315,000)	—	—	—	—
Repayment to an ultimate holding company	—	—	—	—	—	—
Repayment of advances from related parties	—	—	—	—	1,500	—
Advances from shareholders	—	—	1	—	—	—
Advance from an ultimate holding company	—	—	—	8	—	—
	793,735	(3,268)	1	12	—	3,960
Other changes:						
Imputed interest incurred on puttable shares	—	3,268	—	—	—	—
Imputed interest incurred on lease payments	—	—	—	—	—	201
As at 30 June 2019 (unaudited)	793,735	—	1	12	—	4,161

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

(a) General information

The Company was incorporated in the Cayman Islands on 16 March 2018, as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is Huisen Road, Daluo Industrial Park, Longnan Economic Technology Development Zone, Longnan County, Jiangxi Province, the People's Republic of China (the "PRC"). The Company is an investment holding company and the Group is principally engaged in manufacturing and selling of panel furniture, hardware furniture and furniture ornaments (the "Listing Business").

In the opinion of the directors of the Company, the Listing Business was controlled by Mr. Zeng throughout the Track Record Period.

(b) Reorganisation

Prior to the incorporation of the Company and completion of the Reorganisation as described below, the development, production and sales of board type furniture were carried out by Huiming Wood, Huisen Furniture (Longnan) Co., Limited ("Huisen Furniture"), Huisen Mingda (Longnan) Furniture Co., Limited, Weiye Jiankang Technology (Longnan) Co., Limited, Ganzhou Aigesen Wood Panel Co., Limited and Huisen Smart Home Technology (Longnan) Co., Limited (collectively the "HM Group"). Before the completion of the Reorganisation, the HM Group were controlled by Mr. Zeng who held controlling interests in the Group throughout the Track Record Period.

In preparation for the listing of shares of the Company on the Main Board of the Stock Exchange and for the purpose of rationalising the Group's structure, the Company became the holding company of the subsidiaries now comprising the Group on 15 December 2018. The major steps of the Reorganisation are described below:

Step 1: Incorporation of Huisen Household International Group Limited (匯森國際集團有限公司)

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 16 March 2018 and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 27 March 2019.

On 16 March 2018, one subscriber share was issued by the Company at nil consideration, to the initial subscriber which was transferred on the same date to Pure Cypress Limited ("Pure Cypress") at nil consideration. On the same date, a total of 99,999 Shares were allotted and issued, credited as fully paid, by the Company to Pure Cypress. As a result, the entire issued share capital of the Company was wholly owned by Pure Cypress.

Step 2: Incorporation of Haze Everest Limited ("Haze Everest")

Haze Everest was incorporated in the British Virgin Islands ("BVI") as a limited liability company on 8 January 2018 with 50,000 authorised shares of US$1 each. On 22 March 2018, one share was allotted and issued, fully paid, at par by Haze Everest to the Company. As a result, the entire issued share capital of Haze Everest was wholly owned by the Company.

Step 3: Incorporation of Huisen International Group Limited ("HK Huisen") (formerly known as Huisen Household International Group Limited)

HK Huisen was incorporated in Hong Kong as a private company with limited liability on 11 April 2018. On 11 April 2018, one share was allotted and issued, fully paid by Haze Everest at the consideration of HK$1, as a result of which the entire issued share capital of HK Huisen was wholly owned by Haze Everest.

Step 4: Establishment of Huisen Holding (GZ)

On 16 July 2018, HK Huisen established Huisen Holding (GZ) in the PRC with registered capital of US$21 million. The initial shareholder on establishment was HK Huisen.

Step 5: Transfer of 2.5% of the issued share capital of the Company by Pure Cypress to Vantage Link Investments Limited ("Vantage Link")

On 19 November 2018, Pure Cypress transferred 2,500 Shares to Vantage Link, a company limited by shares incorporated in the BVI which is wholly owned by Mr. Su Xinlin ("Mr. Su"), at the consideration of HK$1. As a result, the entire issued share capital of the Company was owned as to 97.5% and 2.5% by Pure Cypress and Vantage Link respectively.

Step 6: Acquisition of approximately 93.46% equity interest in Huiming Wood

On 15 December 2018, Huisen Holding (GZ) acquired 92.53% and 0.93% equity interests of Huiming Wood from Mr. Zeng and Ms. Zeng ML respectively. Following the acquisition, Huiming Wood became an indirect 93.46% owned subsidiary of the Company and 6.54% equity interests owned by Shanghai Huarong Tongyuan Cultural Industry Investment and Development Co., Limited ("Shanghai Huarong").

Step 7: Exercise of Put Option by Shanghai Huarong remaining equity interests in Huiming Wood

On 20 February 2019, Huisen Holding Investment acquired of 6.54% equity interest in Huiming Wood held by Shanghai Huarong, for cash at an aggregate consideration of RMB440,725,753. As a result, Huiming became wholly owned by Huisen Holding Investment and an indirect wholly owned subsidiary of the Company.

After the completion of the abovementioned Reorganisation of the Group, the Group is regarded as a continuing entity since all the entities which took part in the Reorganisation were deemed to be controlled by the same ultimate controlling party, Mr. Zeng before and immediately after the Reorganisation. Consequently, immediately after the Group's Reorganisation, there was a continuation of the risks and benefits to the ultimate controlling party that existed prior to the Reorganisation. The Reorganisation has been accounted for as a restructuring under common control in a manner similar to pooling of interests. Accordingly, the Financial Information has been prepared using the principles of merger accounting as if the current group structure had been in existence throughout the Track Record Period.

Under the merger accounting, the net assets of the consolidated entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or any gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's or parties' interests.

The consolidated statements of comprehensive income include the results of each of the consolidating entities or businesses from the earliest date presented or since the date when the consolidating entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination. All significant intra-group balances and transactions within the Group are eliminated on consolidation.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the Track Record have been prepared to present the results, changes in equity and cash flows of the Company and its subsidiaries as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment or acquisition, whichever is shorter. The consolidated statements of financial position of the Group as of 31 December 2017, 2018, 2019 and 30 June 2020 have been prepared to present the assets and liabilities of the Company and its subsidiaries as if the current group structure had been in existence at those dates.

Upon completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interests in the subsidiaries as set out below, all of which are private entities.

Name of subsidiary	Place and date of incorporation/ establishment and form of business structure	Percentage of equity attributable to the Company		Issued and fully paid ordinary share capital or registered capital	Principal activities and principal place of business	*Note*
		Directly	Indirectly			
Haze Everest Limited "Haze Everest" (嵐峰有限公司)	BVI, 8 January 2018, limited liability company	100%	—	Registered and fully paid capital US$50,000	Investment holding, BVI	(a)
Huisen International Group Limited (formerly known as Huisen Household International Group Limited) "HK Huisen" (匯森國際集團有限公司)	Hong Kong ("HK"), 11 April 2018, limited liability company	—	100%	Registered and fully paid capital HK$1	Investment holding, HK	(b)
Huisen Holding Investment (Ganzhou) Co., Limited* "Huisen Holding Investment" (匯森控股投資(贛州)有限公司)	PRC, 16 July 2018, limited liability company	—	100%	Registered capital US$21,000,000	Investment holding, PRC	(a)
Ganzhou Huiming Wood Industry Co., Limited* "Huiming Wood" (贛州匯明木業有限公司)	PRC 23 October 2014, limited liability company	—	100%	Registered and fully paid capital RMB129,696,947	Development, production and sales of board type furniture	(c)
Huisen Furniture (Longnan) Co., Limited* "Huisen Furniture" (匯森家具(龍南)有限公司)	PRC, 1 November 2005, limited liability company	—	100%	Registered capital RMB363,820,000	Development, production and sales of ready-to-assemble and knock-down furniture; household accessories and decorations	(a)
Huisen Mingda (Longnan) Furniture Co., Limited* "Huisen Mingda" (匯森明達(龍南)家具有限公司)	PRC, 24 April 2014, limited liability company	—	100%	Registered and fully paid capital RMB200,000,000	Development, production and sales of ready-to-assemble and knock-down furniture; household accessories and decorations	(a)
Weiye Jiankang Technology (Longnan) Co., Limited* "Weiye Jiankang" (偉業健康科技(龍南)有限公司)	PRC, 25 January 2007, limited liability company	—	100%	Registered and fully paid capital RMB22,035,846	Development, production and sales of steel/metal type, outdoor and sports-type furniture	(a)

Name of subsidiary	Place and date of incorporation/ establishment and form of business structure	Percentage of equity attributable to the Company Directly	Indirectly	Issued and fully paid ordinary share capital or registered capital	Principal activities and principal place of business	*Note*
Ganzhou Aigesen Wood Panel Co., Limited* "Aigesen" (贛州愛格森人造板有限公司)	PRC, 11 February 2015, limited liability company	—	100%	Registered and fully paid capital RMB380,000,000	Manufacture of wooden, particle and fiber panels or boards	(a)
Huisen Smart Home Technology (Longnan) Co., Limited* "Huisen Home Technology" (匯森智能家居科技(龍南)有限公司) (formerly known as Huisen Upholster Home Technology (Longnan) Co., Limited* (匯森軟體家居科技(龍南)有限公司))	PRC, 11 July 2017, limited liability company	—	100%	Registered capital RMB100,000,000	Trading and sale of upholstered furniture	(a)
Gou Si Life Creative Home E-Commerce (Shenzhen) Co., Limited* "Gou Si Creative" (購私生活創意家居電子商務(深圳)有限公司)	PRC, 26 August 2015, limited liability company	—	100%**	Registered and fully paid capital RMB2,165,000	Online sales of board type furniture	(a)
Jiangxi Huiming Ecological Home Technology Co., Limited*"Huiming Ecological" (江西匯明生態家居科技有限公司)	PRC, 2 December 2016, limited liability company	—	100%**	Registered and fully paid capital RMB200,000,000	Production of wooden type furniture	(a)

* *English names of the subsidiaries are translated directly from their corresponding official Chinese names.*

** These subsidiaries had been disposed of during the Track Record Period (Note 36).

Notes:

(a) There are no statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation for these subsidiaries.

(b) The financial statements of this subsidiary for the period from 11 April 2018 (date of incorporation) to 31 December 2018 and for the year ended 31 December 2019 were audited by BDO Limited.

(c) There are no statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation but the financial statements of this subsidiary for the year ended 31 December 2017 were audited by BDO China Shu Lun Pan Certified Public Accountants LLP.

(c) Basis of presentation

Pursuant to the Reorganisation detailed above, the Company became the holding company of the companies now comprising the Group on 15 December 2018. The companies now comprising the Group were under the common control of Mr. Zeng immediately before and after the completion of the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a consolidated basis by applying the principles of merger method of accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

Accordingly, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2020 have included the results, changes in equity and cash flows of the companies now comprising the Group from the earliest date presented or since their respective dates of incorporation, whichever was shorter, as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position of the Group as at 31 December 2017, 2018, 2019 and 30 June 2020 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates. No adjustment is made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

For the purpose of preparing and presenting the Historical Financial Information, the Group adopted all applicable new/revised HKFRSs and amendments except new/revised HKFRSs and amendments first effective on or before 1 January 2021, and HKFRS 16 "Lease" ("HKFRS 16") which was first effective on 1 January 2019. Except HKFRS 16, other new or amended HKFRSs that were effective between 1 January 2019 and 1 January 2020 did not have any material impact on the Group's financial performance and position. The Group adopted HKFRS 16 since 1 January 2019 using modified retrospective approach and therefore the financial information for the years ended 31 December 2017 and 2018 has not been restated and continues to be reported under HKAS 17 "Lease" ("HKAS 17") and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" ("HK(IFRIC)-Int 4"). Details of the accounting policies under HKAS 17, HK(IFRIC)-Int 4 and HKFRS 16 are disclosed separately in Note 4(h) and the impact of the changes is disclosed in Note 1(c).

Accordingly, throughout the Track Record Period the Group has early adopted the following new standards which were effective for accounting periods commencing 1 January 2018 where early adoption is permitted:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group has reviewed its financial assets and liabilities and has elected to early apply HKFRS 9 which has been applied consistently throughout the Track Record Period.

HKFRS 15, "Revenue from contracts with customers" replaces the pervious revenue standards HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group has elected to early apply HKFRS 15 which has been applied consistently throughout the Track Record Period.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

Upon the adoption of HKFRS 15, the Group recognises revenue when (or as) performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers. The related accounting policy is set out in Note 4(k) to the Historical Financial Information.

At the date of this report, certain new or revised HKFRSs have been issued by the HKICPA but are not effective and have not been adopted early by the Group are set out in Note 3.

For the purpose of preparing the Historical Financial Information, the Group applied HKFRS 16 using the modified retrospective approach with a date of initial application of 1 January 2019, under which the cumulative effect of initial application is recognised in retained profits as at 1 January 2019. HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of HKFRS 16 on the Historical Financial Information is described below.

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to HKFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with HKAS 17 and HK(IFRIC)-Int 4 will continue to be applied to leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. HKFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in HKFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of HKFRS 16, the Group assessed that the new definition in HKFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

HKFRS 16 changes how the Group accounts for leases previously classified as operating leases under HKAS 17, which were off-balance-sheet. Upon application of HKFRS 16, for all leases (except as noted below), the Group (a) recognises right-of-use assets and lease liabilities in the consolidated statements of financial position, initially measured at the present value of future lease payments; (b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statements of profit or loss; and (c) separately presented the total amount of cash paid into a principal portion and interest within financing activities and operating activities in the consolidated statements of cash flows.

Lease incentives (e.g. free-rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under HKAS 17, they resulted in the recognition of a lease incentive liability which was amortised as a reduction of rental expense on a straight-line basis.

Under HKFRS 16, right-of-use assets are tested for impairment in accordance with HKAS 36 "Impairment of Assets". This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by HKFRS 16. This expense is presented within other expenses in the consolidated statements of profit or loss.

Impact on Lessor Accounting

HKFRS 16 does not change substantially how a lessor accounts for leases. Under HKFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, HKFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in the leased assets.

Under HKFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease and not by reference to the underlying asset as was the case under HKAS 17.

As at 31 December 2018, the Group had operating lease commitment of approximately RMB5,879,000 *(Note 44)*. On transition to HKFRS 16, the Group has taken advantage of the following practical expedients to leases previously classified as operating leases under HKAS 17 and recognised right-of-use assets of approximately RMB5,765,000 and lease liabilities of approximately RMB5,836,000 and recognising the difference in retained profits:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- impairment losses on right-of-use assets as at 1 January 2019 have been measured by reference to the amount of any onerous lease provision recognised on 31 December 2018;
- leases with a remaining term of twelve months or less from the date of application have been accounted for as short-term leases (i.e. not recognised on balance sheet) even though the initial term of the leases from lease commencement date may have been more than twelve months;
- initial direct costs have not been included in the measurement of the right-of-use asset as at the date of initial application; and
- using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The aggregate lease liability recognised in the consolidated statements of financial position as at 1 January 2019 and the Group's operating lease commitment as at 31 December 2018 can be reconciled as follows:

	RMB'000
Operating lease commitment as at 31 December 2018 *(Note 44)*	5,879
Discounted using the group's increment borrowing rate of 7.5%	(43)
Lease liabilities recognised as at 1 January 2019	5,836

Prepaid lease payment in respect of the land us right in the PRC is currently reclassified and recognised as right-of-use assets under HKFRS 16.

The adjustment of the opening balances (affected items only) below results from the initial application of the HKFRS 16 as at 1 January 2019. The prior-year amounts were not adjusted.

	31 December 2018	**HKFRS 16 Reclassification**	**HKFRS 16 Contract capitalisation**	**1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets:				
Prepaid land lease payments	23,388	(23,388)	—	—
Right-of-use assets	—	23,388	5,765	29,153
Liabilities:				
Lease liabilities	—	—	5,836	5,836

The adoption of HKFRS 16 has no significant impact on the Group's financial performance and position when compared to HKAS 17 as the Group's right-of-use assets are mainly reclassified from prepaid land lease payments.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Historical Financial Information set out in this report has been prepared in accordance with the accounting policies set out below, which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange (the "Listing Rules").

(b) Basis of measurement

The Historical Financial Information has been prepared under the historical cost basis.

(c) Functional and presentation currency

The Historical Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company. All values in the Historical Financial Information are rounded to the nearest thousand except when otherwise indicated.

3. NEW/REVISED HKFRSs THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The following new/revised HKFRSs, potentially relevant to the Group's Historical Financial Information, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[3]

1 Effective for annual periods beginning on or after 1 June 2020.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after 1 January 2022.
4 A date to be determined by the International Accounting Standards Board.

Further details about those HKFRSs that are not yet effective and are expected to be applicable to the Group are as follows:

HKFRS 17 — Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

Amendment to HKFRS 16 — Covid-19-Related Rent Concessions

The amendment is effective for annual periods beginning on or after 1 June 2020.

The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- there is no substantive change to other terms and conditions of the lease.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business, the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business, the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group has already commenced an assessment of the impact of adopting the above standards and amendments to existing standards to the Group. The directors of the Company anticipate that the application of other new and amendments to HKFRSs and an interpretation will have no material impact on the Group's financial performance and positions and/or the disclosures to the financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Merger accounting for the Reorganisation

The consolidated financial statements incorporate the financial statements of the consolidating entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the consolidating entities or businesses first came under the control of the controlling party.

The net assets of the consolidating entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the consolidating entities from the earliest date presented or since the date when the consolidating entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation.

(b) Basis of consolidation

Except for the merger accounting for the Reorganisation described above, the acquisition method of accounting is used for all other acquisitions of subsidiaries or businesses.

Under the acquisition method, the consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. For each business combination, the acquirer measures the non-controlling interest that represents a present ownership interest in the subsidiary in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the consolidated statements of profit or loss and other comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

(c) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each of the Track Record Period. The principal annual rates are as follows:

Owned assets	
Buildings	Shorter of 5% or period of the lease term
Leasehold improvement	Shorter of 5%–20% or period of the lease term
Machineries	10%–33%
Motor vehicles	20%
Furniture and equipment	20%–33%
Construction in progress	Nil

Construction in progress ("CIP") is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in the profit or loss on disposal.

(e) Prepaid land lease payments

Upfront payments made to acquire land for own use under operating lease is stated at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over the term of the lease as an expense except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

(f) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents 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.

(g) Financial instruments

(i) Financial asset

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("FVTPL"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) 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 (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade, bills and other payables, borrowings, puttable shares payable, leases liabilities and amounts due to an ultimate holding company, shareholders and a related party are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Puttable shares

A contract that contains an obligation for the Group to repurchase or redeem its own equity instruments for cash or another financial asset (i.e. puttable shares) upon the subscriber of the puttable shares exercising a share put option is classified as a financial liability. The financial liabilities are initially measured at the present value of the redemption amount and subsequently measured at amortised cost using the effective interest method.

The potential cash payments related to put options issued by the Group are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of shares. The amount that may become payable under the option on exercise is initially recognised at the present value of the redemption amount within borrowings with a corresponding charge directly to cash and cash equivalents or equity when it is shareholder's transaction with controlling shareholder who received cash.

The Group recognises the cost of puttable shares, determined as the differences between the fair value of the financial liability and any consideration received, as equity. Such financial liability is subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable. The charge arising is recorded as a financing cost. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instrument

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in Note 4(g)(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(h) Leases

The Group as lessee

Policy applicable prior to 1 January 2019

The Group as a leasee classified leases that transferred substantially all of the risk and rewards of ownership as finance leases. Assets held under other leases were classified as operating leases and were not recognised in the consolidated statements of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Policy applicable since 1 January 2019

The Group recognises a right-of-use asset and a lease liability at the lease commencement date except for leases of low value assets and leases that have a lease term of twelve months or less in which the Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

On initial recognition, the right-of-use assets are measured at the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement of the lease, plus any initial direct costs incurred and the amount of any provision recognised where the Group is contractually required to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date of the lease over the shorter of the lease term or the useful life of the underlying asset. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- the amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise;
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early; and
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option.

The lease liability is subsequently measured at amortised cost using the effective interest method. The Group remeasured the lease liabilities with a corresponding adjustment to the related right-of-use asset when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The Group as lessor

Policy applicable prior to 1 January 2019

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease with reference to the underlying asset.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Policy applicable since 1 January 2019

The accounting policy applicable to the Group as a lessor since 1 January 2019 were not different from HKAS 17, except when the Group was an intermediate lessor in which the sub-leases were classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

(i) Foreign currencies

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of Track Record Period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

(j) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of Track Record Period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Pursuant to the relevant regulations of the PRC government, the Group participants in a central pension scheme operated by the local municipal government (the "Scheme"), whereby the subsidiaries of the Company in PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ingoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(iv) Share-based payments

Selected participants of the Group receive remuneration in the form of share-based payments, whereby selected participants render specific services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is measured by reference to the fair value at the date at which the remuneration shares are granted. Such fair value is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all non-market vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of remuneration shares are modified before they vest, the increase in the fair value of the remuneration shares, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

(k) Revenue recognition

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

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

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. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Furniture production

The Group is principally engaged in manufacturing and selling of panel furniture, hardware furniture and furniture ornaments. Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a product to a customer.

Customers obtain control of furniture when title passes and the goods have been delivered to a contractually agreed location. Invoices are generated and revenue is recognised at that point in time.

(ii) Other revenue

The Group recognises revenue from sales of trimmed materials when it transfers control over trimmed materials to a customer. Customers obtain control of trimmed materials when titles passes and the goods have been delivered to a contractually agreed location. Invoices are generated and revenue is recognised at that point in time.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(l) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Grants for general purposes are recorded as income when the right to receive payment is established. Grants for specific purposes are initially recorded as deferred income and released to the consolidated statement of profit or loss and other comprehensive income as income when the related expenditure on the specific purposes are incurred.

(m) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of each of the Track Record Period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of each of the Track Record Period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items directly recognised in other comprehensive income in which case the taxes are also directly recognised in other comprehensive income.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

(o) Impairment of assets (other than financial assets)

At the end of each of the Track Record Period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets; and
- prepaid land lease payments

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(p) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within one year when acquired, which are repayable on demand and form an integral part of the Group's cash management.

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

(q) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) 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 key management personnel of the Group or the Company's parent.

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

(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 the employees of 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 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 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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(s) Research and development costs

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

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

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

(a) Critical judgements in applying accounting policies

(i) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

(ii) Determination the method to estimate variable consideration and assessing the constraint for sale of furniture

Certain contracts for the sale of furniture include a right of return that gives rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of furniture with rights of return, given the large number of customer contracts that have similar characteristics.

Before including any amount of revenue in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based in historical experience, business forecast and the current economic environment, as well as the uncertainty being resolved within a short period of time.

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in this Historical Financial Information, other key sources of estimation uncertainty that have significant risks or resulting material adjustments to the carrying amounts of assets and liabilities with next financial year for the Track Record Period are as follows:

(i) Estimated useful lives and residual value of property, plant and equipment

The Group's management determines the estimated useful lives and residual values for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives. It will write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic view could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(ii) Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution and selling expenses. Management reassesses the estimation at each reporting date to ensure inventories are shown at the lower of cost and net realisable value.

(iii) Impairment of trade receivables, prepayments, deposits and other receivables

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

(iv) Income tax and deferred tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

6. SEGMENT INFORMATION

Operating segments

During the Track Record Period, the Group was principally engaged in manufacturing and selling of panel furniture, hardware furniture and furniture ornaments. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole, as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, the Group has only one business segment and no further analysis of this single segment is considered necessary.

Geographical information

The management determines the Group is domiciled in the PRC, which is the location of the Group's principal office. The Group's revenues from external customers are divided into the following geographical areas:

	Year ended 31 December Revenue from external customers			Revenue from external customers Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
United States	2,045,698	2,308,095	2,669,892	1,219,368	1,150,142
PRC	152,151	282,380	283,354	132,857	101,247
Singapore	233,695	304,253	179,444	114,808	73,482
Malaysia	52,508	68,954	88,184	61,351	42,280
Vietnam	10,279	55,747	79,612	55,147	33,370
Canada	47,311	52,819	68,331	29,557	26,563
Hong Kong	14,502	—	—	—	—
Other locations	267,736	254,973	350,249	139,937	203,658
	2,823,880	3,327,221	3,719,066	1,753,025	1,630,742

The Group's revenue information above is based on the delivery destinations of the Group's products requested by the customers. The geographical location of non-current assets is based on the physical location of the assets. As at 31 December 2017, 2018, 2019 and 30 June 2020, all of the Group's non-current assets are located in the PRC.

Shipping terms of the export sales of the Group are free-on-board (at PRC ports). Therefore the customers are generally responsible for insuring the shipment and handling the importation process, including paying import duties, if any. Accordingly, the Group did not have any overseas tax exposure regarding its sales to locations outside of the PRC.

Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group's total revenue during the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Customer A	560,017	732,186	890,240	400,092	393,581
Customer B	457,754	363,597	445,178	220,970	201,056
Customer C	390,979	591,084	753,037	332,440	312,861
Customer D	438,224	455,924	488,479	245,374	229,423
Customer E	584,276	507,985	555,306	291,480	242,449
	2,431,250	2,650,776	3,132,240	1,490,356	1,379,370

7. REVENUE

Revenue represents the net invoiced value of goods sold and earned by the Group.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Panel-type furniture	2,820,422	3,177,352	3,483,930	1,685,252	1,499,899
Upholstered furniture	2,433	68,391	111,556	25,635	58,736
Outdoor and sport type furniture	1,025	81,478	123,580	42,138	72,107
	2,823,880	3,327,221	3,719,066	1,753,025	1,630,742
Timing of revenue recognition					
At a point in time	2,823,880	3,327,221	3,719,066	1,753,025	1,630,742
Transferred over time	—	—	—	—	—
	2,823,880	3,327,221	3,719,066	1,753,025	1,630,742

As at 31 December 2017, 2018, 2019 and 30 June 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is nil, nil, nil and nil respectively.

8. OTHER REVENUE

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest income from bank deposits	2,663	3,456	3,400	1,511	2,018
Government grants *(Note)*	7,016	4,764	540	540	337
Rental income	186	200	160	79	80
Sales of trimmed materials	223	797	1,420	859	595
	10,088	9,217	5,520	2,989	3,030

Note:

Government grants mainly represent grants received from the PRC local government authority as subsidies to the Group for (a) incentive of industrial development and (b) subsidy for financing the Group's business.

9. OTHER GAINS AND LOSSES

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Exchange (losses)/gains, net	(48,660)	30,660	2,847	(10,235)	10,874
Gain on disposal of subsidiaries	1,008	—	—	—	—
Losses on disposal of property, plant and equipment	(4,318)	(4,382)	(1,195)	(499)	(2,987)
	(51,970)	26,278	1,652	(10,734)	7,887

10. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest expenses on bank and other borrowings	38,622	56,413	56,185	29,522	21,613
Imputed interest expenses on puttable shares	42,633	44,825	3,268	3,268	—
Interest expenses on lease liabilities	—	—	337	201	59
	81,255	101,238	59,790	32,991	21,672

11. PROFIT BEFORE INCOME TAX EXPENSE

The Group's operating profit is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Auditors' remuneration	171	—	—	—	—
Cost of inventories recognised as expenses *(Note)*	2,158,610	2,542,383	2,835,754	1,332,832	1,264,454
Listing expenses — Hong Kong Exchanges and Clearing Limited ("HKEX")	359	11,154	10,097	5,064	1,906
Research and development costs	8,824	15,077	14,881	6,857	7,117
Employee costs *(Note 12)*	147,910	303,587	230,246	106,518	115,602

Note:

Cost of inventories recognised as expenses for the years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2019 and 2020 includes RMB368,548,000, RMB435,406,000, RMB486,199,000, RMB219,779,000 (unaudited) and RMB235,268,000 of staff costs, depreciation, subcontracting fee and other manufacturing overheads which are also included in the respective total amounts disclosed above for each of these types of expenses respectively.

12. EMPLOYEE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Employee costs (including directors' emoluments *(Note 13)*) comprise:					
Wages and salaries	132,512	175,446	197,319	91,808	103,339
Contributions to retirement benefits scheme	10,110	27,979	23,266	10,161	8,715
Equity-settled share-based payment	—	92,425	—	—	—
Other employee benefits	5,288	7,737	9,661	4,549	3,548
	147,910	303,587	230,246	106,518	115,602

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) Directors' remuneration

Directors' emoluments disclosed pursuant to the Listing Rules and section 78(1) of Schedule 11 to the Hong Kong Companies Ordinance, Cap. 622 for the Track Record Period are as follows:

		Year ended 31 December 2017				
	Notes	**Fees** *RMB'000*	**Salaries, allowances and benefits in kind** *RMB'000*	**Contributions to retirement benefits scheme** *RMB'000*	**Equity-settled share-based payment** *RMB'000*	**Total emoluments** *RMB'000*
Executive directors						
Mr. Zeng Ming	(i)	—	336	8	—	344
Ms. Zeng Minglan	(ii)	—	392	8	—	400
Mr. Wu Runlu	(iii)	—	—	—	—	—
Mr. Su Xinlin	(iv), (vi)	—	586	—	—	586
		—	1,314	16	—	1,330
Independent non-executive directors						
Mr. Suen To Wai		—	—	—	—	—
Mr. Lau Jing Yeung William		—	—	—	—	—
Mr. Gao Jianhua		—	—	—	—	—
		—	—	—	—	—
		—	1,314	16	—	1,330

		Year ended 31 December 2018				
	Notes	**Fees** *RMB'000*	**Salaries, allowances and benefits in kind** *RMB'000*	**Contributions to retirement benefits scheme** *RMB'000*	**Equity-settled share-based payment** *RMB'000*	**Total emoluments** *RMB'000*
Executive directors						
Mr. Zeng Ming	(i)	—	360	11	—	371
Ms. Zeng Minglan	(ii)	—	590	11	—	601
Mr. Wu Runlu	(iii)	—	736	10	—	746
Mr. Su Xinlin	(iv), (vi)	—	860	—	92,425	93,285
		—	2,546	32	92,425	95,003
Independent non-executive directors						
Mr. Suen To Wai		—	—	—	—	—
Mr. Lau Jing Yeung William		—	—	—	—	—
Mr. Gao Jianhua		—	—	—	—	—
		—	—	—	—	—
		—	2,546	32	92,425	95,003

	Notes	Fees	Salaries, allowances and benefits in kind	Contributions to retirement benefits scheme	Equity-settled share-based payment	Total emoluments
		Year ended 31 December 2019				
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr. Zeng Ming	(i)	—	420	11	—	431
Ms. Zeng Minglan	(ii)	—	1,463	11	—	1,474
Mr. Wu Runlu	(iii)	—	1,510	11	—	1,521
Mr. Su Xinlin	(iv), (vi)	—	1,895	—	—	1,895
		—	5,288	33	—	5,321
Independent non-executive directors						
Mr. Suen To Wai		—	—	—	—	—
Mr. Lau Jing Yeung William		—	—	—	—	—
Mr. Gao Jianhua		—	—	—	—	—
		—	—	—	—	—
		—	5,288	33	—	5,321

	Notes	Fees	Salaries, allowances and benefits in kind	Contributions to retirement benefits scheme	Equity-settled share-based payment	Total emoluments
		Six months ended 30 June 2019 (unaudited)				
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr. Zeng Ming	(i)	—	210	6	—	216
Ms. Zeng Minglan	(ii)	—	150	6	—	156
Mr. Wu Runlu	(iii)	—	180	6	—	186
Mr. Su Xinlin	(iv), (vi)	—	210	—	—	210
		—	750	18	—	768
Independent non-executive directors						
Mr. Suen To Wai		—	—	—	—	—
Mr. Lau Jing Yeung William		—	—	—	—	—
Mr. Gao Jianhua		—	—	—	—	—
		—	—	—	—	—
		—	750	18	—	768

		Six months ended 30 June 2020				
	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefits scheme RMB'000	Equity-settled share-based payment RMB'000	Total emoluments RMB'000
Executive directors						
Mr. Zeng Ming	(i)	—	209	4	—	213
Ms. Zeng Minglan	(ii)	—	245	4	—	249
Mr. Wu Runlu	(iii)	—	271	4	—	275
Mr. Su Xinlin	(iv), (vi)	—	264	—	—	264
		—	989	12	—	1,001
Independent non-executive directors						
Mr. Suen To Wai		—	—	—	—	—
Mr. Lau Jing Yeung William		—	—	—	—	—
Mr. Gao Jianhua		—	—	—	—	—
		—	—	—	—	—
		—	989	12	—	1,001

Notes:

(i) Mr. Zeng Ming was appointed as a Director on 16 March 2018 and re-designated as an executive Director on 10 September 2018.

(ii) Ms. Zeng Minglan was appointed as an executive Director of the Company on 10 September 2018.

(iii) Mr. Wu Runlu was appointed as an executive Director on 10 September 2018.

(iv) Mr. Su Xinlin was appointed as an executive Director on 10 September 2018.

(v) Salaries and other benefits included basic salaries, housing allowance, other allowances and benefits in kind.

(vi) On 19 November 2018, 2,500 ordinary shares of the Company transferred from Mr. Zeng Ming to Vantage Link, being a company wholly owned by Mr. Su Xinlin, was made as a reward for Mr. Su Xinlin to assist the Company on its application for listing (the "listing application") of the ordinary shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the cost of such ordinary shares transferred with approximate fair value of RMB92,425,000 was accounted as equity-settled share-based payment at the date of ordinary shares transfer (Note 40).

During the Track Record Period, none of the directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

(ii) Five highest paid individuals

The five highest paid individuals of the Group included three directors for the years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2019 (unaudited) and 2020, whose emoluments are reflected in Note 13(i).

The analysis of the emolument of the remaining two highest paid individuals for the years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2019 (unaudited) and 2020, respectively, are set out below:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries and other benefits	859	1,312	662	336	317
Contributions to retirement benefits scheme	15	20	20	10	6
	874	1,332	682	346	323

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

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Nil to RMB1,000,000	2	2	2	2	2

During the Track Record Period, none of the five highest paid individuals waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

(iii) Senior management emolument band

The number of senior management whose remuneration fell within the following band is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Nil to RMB1,000,000	2	2	2	2	2

14. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statements of profit or loss and other comprehensive income represents:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Current tax — PRC Enterprise Income Tax (the "PRC EIT")					
— for the year/period	70,856	90,371	100,759	47,187	43,431
— Under/(over)-provision in prior year/period	75	213	447	39	(202)
	70,931	90,584	101,206	47,226	43,229
Deferred tax *(Note 27)*					
— for the year/period	(189)	482	566	305	(390)
Income tax expenses	70,742	91,066	101,772	47,531	42,839

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the Company incorporated in the Cayman Islands and the Company's subsidiary incorporated in BVI are not subject to any income tax.

Hong Kong Profits Tax for the Company's subsidiary incorporated in Hong Kong has been provided at the rate of 16.5% on the estimated assessable profits.

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of the subsidiaries of the Group is calculated based on the statutory tax rate of 25%, except for the following three subsidiaries. Huiming Wood, Huisen Furniture and Huisen Mingda are recognised as the enterprises of Development of the West Regions according to the PRC tax regulations and are entitled to a preferential tax rate of 15% during the Track Record Period.

The income tax expense for the Track Record Period can be reconciled to the profit before income tax expense per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before income tax expense	405,523	476,530	670,075	301,020	282,034
Tax calculated at the PRC statutory tax rate of 25%	101,381	119,132	167,519	75,254	70,508
Expenses not deductible for tax purposes	6,394	23,162	64	42	27
Effect of tax exemptions granted to PRC subsidiaries	(41,800)	(60,247)	(66,949)	(30,937)	(27,636)
Tax losses/temporary difference not recognised	4,692	8,892	1,313	3,153	1,841
Utilisation of unrecognised tax losses	—	(86)	(622)	(20)	(1,699)
Under/(over) provision in respect of prior years/periods	75	213	447	39	(202)
	70,742	91,066	101,772	47,531	42,839

The weighted average applicable tax rate was 17.4%, 19.1%, 15.2%, 15.8 % (unaudited) and 15.2% for the years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2019 and 2020 respectively.

15. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

16. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful due to the Reorganisation and the presentation of the results of the Group for the Track Record Period on a consolidated basis as disclosed in Note 1.

17. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment						
	Buildings	Leasehold improvement	Machineries	Motor vehicles	Furniture and equipment	CIP	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 1 January 2017	258,283	8,817	378,249	1,706	1,049	121,168	769,272
Additions	2,380	483	68,877	1,371	2,905	484,997	561,013
Transfer from CIP	128,096	55,126	422,844	—	—	(606,066)	—
Disposals	—	—	(21,226)	(337)	(6)	—	(21,569)
Disposal of subsidiaries	—	—	—	(89)	(468)	(99)	(656)
At 31 December 2017	388,759	64,426	848,744	2,651	3,480	—	1,308,060
Additions	4,815	—	22,153	928	—	—	27,896
Disposals	—	—	(7,052)	(131)	—	—	(7,183)
At 31 December 2018	393,574	64,426	863,845	3,448	3,480	—	1,328,773
Additions	—	—	9,373	258	27	—	9,658
Disposals	—	—	(20,514)	—	(163)	—	(20,677)
At 31 December 2019	393,574	64,426	852,704	3,706	3,344	—	1,317,754
Additions	—	—	51,010	83	—	—	51,093
Disposals	—	—	(4,989)	—	—	—	(4,989)
At 30 June 2020	393,574	64,426	898,725	3,789	3,344	—	1,363,858
Accumulated depreciation							
At 1 January 2017	23,733	929	72,961	1,231	529	—	99,383
Provided for the year	15,657	1,909	57,248	99	404	—	75,317
Eliminated on disposals	—	—	(4,466)	(74)	(5)	—	(4,545)
Disposal of subsidiaries	—	—	—	—	(77)	—	(77)
At 31 December 2017	39,390	2,838	125,743	1,256	851	—	170,078
Provided for the year	18,103	3,027	76,438	363	611	—	98,542
Eliminated on disposals	—	—	(2,673)	(118)	—	—	(2,791)
At 31 December 2018	57,493	5,865	199,508	1,501	1,462	—	265,829
Provided for the year	18,139	3,027	76,302	450	610	—	98,528
Eliminated on disposals	—	—	(5,981)	—	(147)	—	(6,128)
At 31 December 2019	75,632	8,892	269,829	1,951	1,925	—	358,229
Provided for the period	9,070	1,514	39,251	231	306	—	50,372
Eliminated on disposals	—	—	(2,001)	—	—	—	(2,001)
At 30 June 2020	84,702	10,406	307,079	2,182	2,231	—	406,600
Net book value							
At 30 June 2020	308,872	54,020	591,646	1,607	1,113	—	957,258
At 31 December 2019	317,942	55,534	582,875	1,755	1,419	—	959,525
At 31 December 2018	336,081	58,561	664,337	1,947	2,018	—	1,062,944
At 31 December 2017	349,369	61,588	723,001	1,395	2,629	—	1,137,982

At 31 December 2017, 2018, 2019 and 30 June 2020, additions include RMB2,218,000, nil, nil and nil respectively relating to interest capitalised during the Track Record Period.

At 31 December 2017, 2018, 2019 and 30 June 2020, the Group's buildings, machineries and construction in progress with an aggregate carrying amount of approximately RMB257,340,000, RMB243,341,000, RMB330,419,000 and RMB316,068,000 respectively were pledged to secure banking facilities granted to the Group (Note 30).

At 31 December 2017, 2018, 2019 and 30 June 2020, the Group's machineries with an aggregate carrying amount of approximately RMB61,421,000, RMB139,260,000, RMB103,999,000 and RMB97,418,000 respectively were pledged to secure other loan granted to the Group (Note 30).

18. RIGHT-OF-USE ASSETS

	Land use right	Showroom and warehouse	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2017 and 31 December 2017 and 2018	—	—	—
Prepaid lease payments (reclassification) *(Note 19)*	23,388	—	23,388
Contract capitalisation	—	5,765	5,765
At 1 January 2019	23,388	5,765	29,153
Depreciation for the year	(508)	(3,459)	(3,967)
At 31 December 2019	22,880	2,306	25,186
Depreciation for the period	(253)	(1,730)	(1,983)
At 30 June 2020	22,627	576	23,203

The interest of land use right in the PRC are prepaid upon acquisition. The Group had also leased properties in USA. The rental agreement is made for a fixed period of 2 years and does not impose any restriction or covenant.

At 31 December 2019 and 30 June 2020, the Group's land use right with an aggregate carrying amounts of approximately RMB6,055,000 and RMB6,726,000 respectively were pledged to secure banking facilities granted to the Group (Note 30).

At 31 December 2019 and 30 June 2020, the Group's land use right with an aggregate carrying amounts of approximately RMB11,407,000 and RMB11,283,000 respectively were pledged to a non-related party to secure banking facilities granted to Group (Note 30).

19. PREPAID LAND LEASE PAYMENTS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	23,605	23,896	—	—
Addition	808	—	—	—
Amortised during the year/period	(517)	(508)	—	—
	23,896	23,388	—	—
Represented by:				
Current portion	517	508	—	—
Non-current portion	23,379	22,880	—	—
	23,896	23,388	—	—

The cost of prepaid lease payments and accumulated amortisation as at 31 December 2017 and 2018 was RMB25,381,000 and RMB1,993,000 respectively. The carrying amount of prepaid lease payments is reclassified as right-of-use assets at the date of initial application of HKFRS 16.

At 31 December 2017 and 2018, the Group's leasehold land with an aggregate carrying amounts of approximately RMB6,115,000 and RMB6,198,000 respectively were pledged to secure banking facilities granted to the Group (Note 30).

At 31 December 2017 and 2018, the Group's leasehold land with an aggregate carrying amounts of approximately RMB11,902,000 and RMB11,654,000 respectively were pledged to a non-related party to secure banking facilities granted to Group (Note 30).

At 31 December 2017 and 2018, the Group's leasehold land with an aggregate carrying amounts of approximately RMB4,871,000 and nil respectively were pledged to secure banking facilities granted to a related party (Note 39).

20. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	68,677	75,574	64,747	52,786
Work-in-progress	26,931	11,846	8,014	6,227
Finished goods	194,849	141,200	98,669	83,054
	290,457	228,620	171,430	142,067

21. TRADE RECEIVABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	778,377	883,628	1,055,234	786,926
Less: Impairment provision	(3,892)	(4,418)	(5,276)	(7,869)
	774,485	879,210	1,049,958	779,057

The Group's trading term with customers are mainly on credit. The credit terms are generally 0 to 90 days.

As at 31 December 2017, 2018, 2019 and 30 June 2020, the Group's trade receivables with an aggregate carrying amounts of approximately RMB145,985,000, RMB39,169,000, nil and nil respectively were pledged to secure banking facilities granted to the Group (Note 30).

As at 31 December 2017, 2018, 2019 and 30 June 2020, trade receivables with amounts that are individually significant have been separately assessed for impairment.

An ageing analysis, based on the payment due dates, as of the end of the Track Record Period is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not yet past due	777,088	883,191	974,531	786,926
Less than 3 months past due	1,289	437	80,703	—
	778,377	883,628	1,055,234	786,926

As at 31 December 2017, 2018, 2019 and 30 June 2020, trade receivables of approximately RMB3,892,000, RMB4,418,000, RMB5,276,000 and RMB7,869,000 respectively were impaired.

Movement on the Group's provision for impairment on trade receivables are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	3,661	3,892	4,418	5,276
Provision for impairment loss reversed on trade receivables, net	231	526	858	2,593
At the end of year/period	3,892	4,418	5,276	7,869

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 41.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current					
Prepayments		1,225	3,227	500	719
Value added tax recoverable		100,621	92,109	53,743	37,561
Other receivables	a, b	20,363	1,178	1,723	3,719
Deferred listing expenses		120	3,034	5,928	5,968
		122,329	99,548	61,894	47,967
Non-current					
Prepayments for acquisition of property, plant and equipment		2,490	8,500	30,784	50
Prepayments for acquisition of land use right		3,500	3,500	—	—
		5,990	12,000	30,784	50
Other receivables	b	681	3,057	1,758	—
		6,671	15,057	32,542	50
		129,000	114,605	94,436	48,017

Note:

The carrying amounts of prepayments, deposits and other receivables were primarily denominated in RMB and approximated their fair values due to their short maturity at the reporting date. For the years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2020, there was no provision for impairment on prepayments, deposits and other receivables.

(a) Other receivables included amounts due from purchasers of the Group's subsidiaries disposed during the Track Record Period of RMB19,865,000 as at 31 December 2017 (Note 36).

(b) Other receivables as at 31 December 2017, 2018, 2019 and the six months ended 30 June 2020 were neither past due nor impaired relate to other receivables for whom there is no recent history of default. These balances are non-interest bearing and relate to receivables for which there was no history of default and are expected to be realised upon their respective expiry dates.

23. AMOUNT DUE TO AN ULTIMATE HOLDING COMPANY

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pure Cypress Limited	—	4	13	24

The amount due to an ultimate holding company was non-trade in nature, unsecured, interest-free and repayable on demand.

The Company confirmed that the non-trade balance would be settled prior to listing of the shares of the Company.

24. AMOUNTS DUE FROM/(TO) SHAREHOLDERS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Zeng Ming	(23,229)	—	—	(356)
Ms. Zeng Minglan	(12)	—	—	4
	(23,241)	—	—	(352)

The amounts due from/(to) shareholders were non-trade in nature, unsecured, interest-free and repayable on demand.

The Company confirmed that the non-trade balances would be settled prior to listing of the shares of the Company.

25. RESTRICTED BANK DEPOSITS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Restricted bank deposits	34,500	42,973	1,240	500

Notes:

(a) Restricted bank deposits of RMB29,500,000, RMB31,800,000, nil and nil were pledged to certain banks as securities for general banking facilities granted to the Group as at 31 December 2017, 2018, 2019 and 30 June 2020 respectively (Note 30).

(b) Restricted bank deposits of RMB1,020,000, RMB10,000,000, RMB1,240,000 and RMB500,000 were pledged to fulfil collateral requirements for bills payable as at 31 December 2017, 2018, 2019 and 30 June 2020 respectively (Note 28).

(c) Pledged bank deposits were deposited with creditworthy banks. The directors of the Company considered that the fair value of the pledged bank deposits is not materially different from their carrying amount because of the short maturity period on their inception.

26. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	759,466	906,538	1,084,636	1,528,105

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

27. DEFERRED TAX

	Accrued expenses and allowance for expected credit loss	Total
	RMB'000	*RMB'000*
1 January 2017	1,648	1,648
Credited to profit or loss for the year	189	189
At 31 December 2017 and 1 January 2018	1,837	1,837
Charged to profit or loss for the year	(482)	(482)
At 31 December 2018 and 1 January 2019	1,355	1,355
Charged to profit or loss for the year	(566)	(566)
At 31 December 2019 and 1 January 2020	789	789
Credited to profit or loss for the period	390	390
At 30 June 2020	1,179	1,179

(a) The amount represents deferred tax assets arising from accrual of social insurance expenses, housing provident fund expenses and allowance for expected credit loss at the amounts of RMB1,259,000 for the year ended 31 December 2017 and reversal of social insurance and house provident fund at the amounts of RMB3,211,000, RMB3,777,000 and nil for the years ended 31 December 2018, 2019 and the six months ended 30 June 2020 respectively.

(b) The unused tax losses carried forward not recognised in the consolidated financial statements due to unpredictability of future profit streams are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unused tax losses	32,936	63,968	65,594	66,575

The PRC tax losses can only be carried forward for a maximum period of five years. The expiry of unused tax losses for which no deferred tax assets have been recognised is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Tax losses will expire in 2019	2,244	—	—	—
Tax losses will expire in 2020	5,681	5,681	—	—
Tax losses will expire in 2021	10,039	10,039	10,039	—
Tax losses will expire in 2022	14,972	14,972	14,972	14,972
Tax losses will expire in 2023	—	33,276	33,276	33,276
Tax losses will expire in 2024	—	—	7,307	7,307
Tax losses will expire in 2025	—	—	—	11,020
	32,936	63,968	65,594	66,575

(c) Pursuant to the Detailed Implementation Regulations for implementation of the Corporate Income Tax Law issued on 6 December 2007, dividends distributed from the profits generated by the PRC companies after 1 January 2008 to their foreign investors shall be subject to this withholding income tax of 10%, a lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are incorporated in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong. The Group has not accrued any withholding income tax for the undistributed earnings of its PRC subsidiaries as the directors of the Group decided not to distribute the undistributed earnings for the period from 1 January 2008 up to the end of the Track Record Period from its PRC subsidiaries in the future.

28. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(Note (a))*	258,578	246,831	269,741	184,151
Bills payable	1,020	20,000	1,240	500
	259,598	266,831	270,981	184,651

Note:

(a) An ageing analysis of trade payables as at the respective reporting dates, based on the invoice dates, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within three months	258,578	246,831	269,741	184,151

The Group's trade payables are non-interest bearing and generally have payment terms of 0 to 30 days.

All the bills payables of the Group were not yet due at the end of the Track Record Period.

As at 31 December 2017, 2018, 2019 and 30 June 2020, bills payable were secured by the Group's restricted bank deposits of RMB1,020,000, RMB10,000,000, RMB1,240,000 and RMB500,000 (Note 25) respectively.

29. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	58,306	16,047	18,864	14,369
Accruals	31,582	37,928	45,897	30,610
	89,888	53,975	64,761	44,979

Other payables and accruals are non-interest bearing and are expected to be realised within twelve months from the respective reporting dates.

30. BORROWINGS

		As at 31 December			As at 30 June
		2017	**2018**	**2019**	**2020**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current					
Bank loans due for repayment within one year	a, b	591,798	442,692	484,000	463,000
Other loans	c	17,928	35,364	45,615	31,859
		609,726	478,056	529,615	494,859
Non-current					
Bank loans	a, b	265,000	240,000	110,000	110,000
Other loans	c	47,061	50,145	16,401	10,882
		312,061	290,145	126,401	120,882
Total borrowings		921,787	768,201	656,016	615,741

Note:

(a) The bank loans are secured by:

(i) the Group's certain buildings and machineries included in property, plant and equipment (Note 17) amounted to RMB257,340,000, RMB243,341,000, RMB330,419,000 and RMB316,068,000 at 31 December 2017, 2018, 2019 and 30 June 2020 respectively;

(ii) prepaid land lease payments (Note 19) amounted to RMB6,115,000, RMB6,198,000, nil and nil at 31 December 2017, 2018, 2019 and 30 June 2020 respectively;

(iii) trade receivables (Note 21) amounted to RMB145,985,000, RMB39,169,000, nil and nil at 31 December 2017, 2018, 2019 and 30 June 2020 respectively;

(iv) restricted bank deposits (Note 25) amounted to RMB29,500,000, RMB31,800,000, nil and nil at 31 December 2017, 2018, 2019 at 30 June 2020 respectively;

(v) corporate guarantee given by a company which was controlled by Mr. Zeng prior to September 2018;

(vi) personal guarantee given by the Company's director, Mr. Zeng and his close family members (Note 39);

(vii) the properties of non-related parties;

(viii) registered capital of Huisen Holding Investment amounted to US$21,000,000 and US$21,000,000 at 31 December 2019 and 30 June 2020;

(ix) corporate guarantee given by a non-related party, in which prepaid land lease payments (Note 19) amounted to RMB11,902,000, RMB11,654,000, nil and nil at 31 December 2017, 2018, 2019 and 30 June 2020 respectively are pledged to this non-related party;

(x) land use right under right-of-use assets (Note 18) amounted to RMB6,055,000 and RMB6,726,000 at 31 December 2019 and 30 June 2020; and

(xi) corporate guarantee given by a non-related party, in which land use right under right-of-use assets (Note 18) amounted to RMB11,407,000 and RMB11,283,000 at 31 December 2019 and 30 June 2020 are pledged to this non-related party.

(b) Interest are charged at fixed/floating effective interest rates ranging from 0.77% to 7.99%, 2.08% to 7.84%, 3.685% to 7.99% and 3.685% to 7.99% at 31 December 2017, 2018, 2019 and 30 June 2020 respectively.

(c) As at 31 December 2017, 2018, 2019 and 30 June 2020, other loans of RMB55,990,000, RMB76,709,000, RMB55,066,000 and RMB36,991,000 are secured by the Group's machineries included in property, plant and equipment (Note 17) amounted to RMB61,421,000, RMB139,260,000, RMB103,999,000 and RMB97,418,000 respectively. Interest are charged at fixed effective interest rates ranging from 2% to 4.275%, 2% to 4.275%, 1.2% to 4.275% and 1.2% to 4.275% at 31 December 2017, 2018, 2019 and 30 June 2020 respectively.

Other loans of RMB9,000,000 and RMB8,800,000, RMB6,950,000 and RMB5,750,000 at 31 December 2017, 2018, 2019 and 30 June 2020 respectively are loans borrowed under the poverty alleviation loan scheme executed by the Ganzhou government. The loans were borrowed from poverty farmers and interests paid to the farmers were subsidised by the Ganzhou government. Interests are charged at fixed effective interest rates of 14.75%, 14.75%, 14.75% and 14.75% at 31 December 2017, 2018, 2019 and 30 June 2020 respectively.

At the end of each of the Track Record Period, total current and non-current borrowings were scheduled to repay as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
On demand or within one year	591,798	442,692	484,000	463,000
More than one year, but not exceeding two years	20,000	130,000	40,000	40,000
More than two years, but not exceeding five years	245,000	110,000	70,000	70,000
	856,798	682,692	594,000	573,000
Other loans				
On demand or within one year	17,928	35,364	45,615	31,859
More than one year, but not exceeding two years	19,199	47,284	16,401	10,882
More than two years, but not exceeding five years	27,862	2,861	—	—
	64,989	85,509	62,016	42,741
	921,787	768,201	656,016	615,741

31. PUTTABLE SHARES PAYABLE

Pursuant to the shareholders' agreement, capital injection agreement and guarantee agreement, dated 25 January 2017 and corresponding supplementary agreements dated 5 December 2018 (the "Agreements"), entered into between the Group, Mr. Zeng and Shanghai Huarong, Shanghai Huarong agreed to subscribe for the registered capital of Huiming Wood of approximately RMB8.48 million, representing 6.54% registered capital of Huiming Wood by way of additional cash contribution of RMB350 million. The consideration had been settled in full on 26 January 2017 and the relevant registration procedures were completed on 21 February 2017.

Simultaneously, a put option ("Put Option") had been granted under the Agreements by the Group to Shanghai Huarong. The Group shall purchase for cash the entirety of 6.54% interest in Huiming Wood held by Shanghai Huarong, if it triggers any one of the following circumstances (trigger event):

(i) if Huiming Wood fails to meet the guaranteed profit targets at 31 December 2016, 2017, 2018; or

(ii) if Huiming Wood fails to complete a listing of the shares of Huiming Wood or its holding company on the Shanghai Stock Exchange, Shenzhen Stock Exchange or other onshore or offshore stock exchange approved by Shanghai Huarong and on such conditions of listing as approved by Shanghai Huarong before 31 December 2019.

Accordingly, the shares subscribed by Shanghai Huarong above represents puttable shares and have consequently been accounted for as a financial liability under the consolidated financial statements.

Pursuant to the Agreements, Shanghai Huarong is entitled to a 7.5% preferred dividend per annum ("p.a.") on the cash contribution. The exercise price of the Put Option is based on the cash contribution plus an internal rate of return of 13% p.a., net of any dividends paid.

At initial recognition, the puttable shares payable of RMB350 million is recognised as a current financial liability in the consolidated financial statements due to a potential event triggers within twelve months.

The movement of the puttable shares payable during the Track Record Period are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January	—	369,404	349,452	—
Advances received	350,000	—	—	—
Repayment of advances	—	(35,000)	(315,000)	—
Imputed interest incurred on puttable shares	42,633	44,825	3,268	—
Preferred dividend paid	(23,229)	(29,777)	(37,720)	—
	369,404	349,452	—	—

32. LEASE LIABILITIES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	—	—	2,422	617

The reconciliation of movements in the lease liabilities during the Track Record Period is presented below:

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	—	—	—	2,422
Adjustment upon initial adoption of HKFRS 16	—	—	5,836	—
At the beginning of the year/period, adjusted	—	—	5,836	2,422
Lease payments	—	—	(3,751)	(1,864)
Interest expense	—	—	337	59
At the end of the year/period	—	—	2,422	617

33. AMOUNT DUE FROM/(TO) A RELATED PARTY

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from a related party					
Non-trade nature					
上海華融通遠文化產業投資發展有限公司 (Shanghai Huarong Tongyuan Cultural Industry Investment and Development Co., Limited*) ("Shanghai Huarong")	(b), (d)	—	1,500	—	—
Amount due to a related party					
Non-trade nature					
HK International Tengda Houseware Limited ("Tengda")	(a), (c)	12,474	—	—	—

Notes:

(a) Mr. Zeng is a common shareholder who exercised significant control on Tengda during the Track Record Period.

(b) Shanghai Huarong was a registered investor of Huiming Wood, a PRC subsidiary of the Group during the years ended 31 December 2017 and 2018.

(c) At 31 December 2017, 2018, 2019 and 30 June 2020, the amount due to a related party was non-trade nature, unsecured, interest-free and repayable on demand.

(d) At 31 December 2017, 2018, 2019 and 30 June 2020, the amount due from a related party was non-trade nature, unsecured, interest-free and repayable on demand.

* English name of this company is translated directly from its corresponding official Chinese name.

34. SHARE CAPITAL

	As at 31 December 2018	As at 31 December 2019	As at 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*
Issued and fully paid			
100,000 ordinary shares of HK$0.1 each	9	9	9

There was no share capital as at 1 January 2017 and 31 December 2017 since the Company was not yet set up by then.

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 16 March 2018 with authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.1 each. On the date of incorporation, 100,000 ordinary shares of HK$0.1 were allotted and issued by the Company.

35. RESERVES

(a) The Group

Details of the movements in the reserves of the Group during the Track Record Period are set out in the consolidated statements of changes in equity.

(b) The Company

The movement in the reserves of the Company from 16 March 2018 (date of incorporation) to 30 June 2020 is presented below:

	Accumulated losses
	RMB'000
As at 16 March 2018 (date of incorporation)	—
Capital reserve	92,425
Loss for the period	(92,430)
As at 31 December 2018 and 1 January 2019	(5)
Loss for the year	(4)
As at 31 December 2019 and 1 January 2020	(9)
Loss for the period	(2)
As at 30 June 2020	(11)

(c) The following describes the nature and purpose of each reserve within owner's equity:

Reserve	**Description and purpose**
Capital reserve	Capital reserve represents capital injection in excess of registered capital and equity-settled share-based transaction incurred as a reward for assistance of listing application of the Company provided by staff of the Company.
Statutory reserve	In accordance with the relevant PRC laws and regulations and the Company's articles of association, the Company is required to transfer 10% of its net profit as determined in accordance with accounting rules and regulations of the PRC to the statutory PRC reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before distributions to equity shareholders. This reserve can be utilised in setting off accumulated losses or increase capital and is non-distributable other than in liquidation.
Merger reserve	It represents the difference between the nominal value of shares issued by the Company and the aggregate fully paid registered capital of PRC subsidiaries acquired pursuant to the Group Reorganisation.
Translation reserve	Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.
Retained earnings/ (accumulated losses)	Cumulative net gains and loss recognised in profit and loss.

36. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2017

On 21 August 2017, Huiming Wood entered into a sale and purchase agreement under which Huiming Wood, as a vendor, agreed to sell, and Mr. Liu Hai Jun, a non-related purchaser, agreed to purchase 80% equity interests of Huiming Ecological, a subsidiary of Huiming Wood at consideration of approximately RMB15,892,000.

On 21 August 2017, Huiming Wood entered into a sale and purchase agreement under which Huiming Wood, as a vendor, agreed to sell, and Mr. Zeng Rui Fu, a non-related purchaser, agreed to purchase 20% equity interests of Huiming Ecological, a subsidiary of Huiming Wood at consideration of approximately RMB3,973,000.

On 15 December 2017, Huisen Furniture entered into a sale and purchase agreement under which Huisen Furniture, as a vendor, agreed to sell, and Huiming Ecological, as a non-related purchaser, agreed to purchase 100% equity interests of Gou Si Creative, a subsidiary of Huisen Furniture at nil consideration.

Upon the completion, Huiming Wood and Huisen Furniture ceased to hold any interests in Huiming Ecological and Gou Si Creative. The net assets of Huiming Ecological and Gou Si Creative at the date of disposal were summarised as follows:

	Huiming Ecological	Gou Si Creative	Total
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	188	391	579
Inventories	399	9	408
Trade and other receivables	18,292	432	18,724
Cash and bank balances	585	277	862
Trade and other payables	(274)	(1,442)	(1,716)
Gain on disposal of subsidiaries	675	333	1,008
Total consideration	19,865	—	19,865
Satisfied by:			
Cash	19,865	—	19,865
Net cash inflow arising on disposal:			
Cash consideration	19,865	—	19,865
Cash and bank balances disposed of	(585)	(277)	(862)
	19,280	(277)	19,003

37. INTEREST IN A SUBSIDIARY

The Company

	As at 31 December 2018	As at 31 December 2019	As at 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*
Unlisted investment, at cost	—*	—*	—*

* Represents amount less than RMB1,000.

Particulars of the directly and indirectly held subsidiaries of the Company are set out on pages I-19 to I-20 of this report.

38. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2017, 2018, 2019 and 30 June 2020, the Group provided corporate guarantees and pledged its leasehold land to unrelated companies to secure their bank facilities and loan from financial institution for maximum liabilities of RMB141,895,078, nil, nil and nil respectively.

Under the guarantees, the Group would be liable to pay the holders of these guarantees in the event of any default. As at the date of initial recognition, 31 December 2017, 2018, 2019 and 30 June 2020, no provision for the Group's obligation under the guarantee contracts have been made as the directors considered that it was not probable that the repayment of loan would be in default as the fair value of financial guarantee was insignificant.

39. RELATED PARTY TRANSACTIONS

(a) Significant transactions with related parties

In addition to the transactions and balances disclosed elsewhere in the Historical Financial Information, the Group had the following significant transactions with related parties during the Track Record Period:

Name of company	Nature of transaction	Note	For the years ended 31 December 2017	2018	2019	For the six months ended 30 June 2019	2020
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
贛州恒達木業有限公司 (Ganzhou Hengda Wood Co., Ltd*) ("Hengda Wood")	Purchase of raw material	(i)	21,679	—	—	—	—
Shanghai Huarong	Imputed interest expenses on puttable shares	(ii)	42,633	44,825	3,268	3,268	—

During the Track Record Period, the Group provided guarantees to a related party to secure its bank facilities:

Name of company	Guarantee exercised by the Group	Note	Maximum guarantee amount: For the years ended 31 December 2017	2018	2019	For the six months ended 30 June 2019	2020
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Hengda Wood	Leasehold lands	(i)	18,000	—	—	—	—
	Machineries		20,000	—	—	—	—

Notes:

(i) Hengda Wood is a related company, of which Mr. Zeng exercised significant control as at 31 December 2017. At 31 December 2017, the Group's leasehold land with an aggregate carrying amounts of approximately RMB4,871,000 was pledged to secure banking facilities granted to Hengda Wood (Note 19).

At 31 December 2018 and 2019, and 30 June 2020, no assets of the Group were pledged to secure banking facilities granted to Hengda Wood.

(ii) Shanghai Huarong was a registered investor of Huiming Wood, a PRC subsidiary of the Group during the years ended 31 December 2017 and 2018.

(iii) During the Track Record Period, Mr. Zeng and his close family members provided personal guarantees to certain banks for granting general banking facilities granted to the Group (Note 30).

The relevant banks have given their consents in principle to release such guarantees provided by these related parties upon Listing.

(iv) The related party transactions were carried out on terms and conditions mutually agreed between contracting parties.

* English names of the subsidiaries are translated directly from their corresponding official Chinese names.

(b) Compensation of key management personnel

The key management personnel of the Group represent directors and other senior management of the Group. Details of the remuneration paid to them during the Track Record Period are set out in Note 13 to the Historical Financial Information.

(c) Outstanding balance with related parties

Details of the Group's amounts due from/(to) an ultimate holding company, shareholders and related parties are included in Notes 23, 24 and 33.

40. EQUITY-SETTLED SHARE-BASED PAYMENT

On 19 November 2018, Pure Cypress transferred 2,500 shares of the Company to Vantage Link, being a company wholly owned by Mr. Su Xinlin, a director of the Company, which was made as a reward for Mr. Su Xinlin to assist the Company on the listing application of the ordinary shares of the Company on the Stock Exchange. The cost of the transferred ordinary shares was measured at fair value at the date of the ordinary shares transfer and accounted as an equity-settled share-based payment transaction by the Company.

In consideration of such ordinary shares transferred, Mr. Su Xinlin needed to render full co-operation to the Group and used his best endeavours to assist the Company on the listing application. There are no vesting period and shares clawed back conditions binding on such ordinary shares transferred and the full cost of such equity-settled share-based payment was recognised immediately in the profit or loss of the Company at the date of ordinary shares transfer.

The initial recognition of the fair value of the shares transferred is as follows:

	RMB'000
Transferred ordinary shares, at fair value	92,425

The Company determined the fair value of ordinary shares based on valuation performed by Grant Sherman Appraisal Limited, an independent qualified valuer.

Below is a summary of the valuation techniques used and the key inputs to the valuation of the ordinary shares:

	Valuation technique	**Key input**	**Significant unobservable input**
Ordinary shares	Market method	Comparable listed company's price-to-book ratio	Liquidity discount rate

41. FINANCIAL RISK MANAGEMENT

The Group's principal financial assets are trade receivables, other receivables, amounts due from a shareholder and a related party, restricted bank deposits and cash and cash equivalents that derive directly from its operations. Principal financial liabilities of the Group include trade and bills payables, other payables, borrowings, lease liabilities, amounts due to an ultimate holding company, shareholders and related parties. The main purpose of these financial liabilities is to finance the Group's operations.

The Group has not issued and does not hold any financial instruments for trading purposes at the end of each of the Track Record Period. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. Generally, the Group utilises conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum.

(a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and deposits with banks.

The Group's customers are mainly reputable corporations and thus credit risk is considered to be low. Credit risk on other receivables is minimal as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by the Group during the Track Record Period and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level. The Group's financial assets which are secured by collateral or other credit enhancements during the Track Record Period are disclosed in Note 30(a).

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and others receivables. Management is of the opinion that the risk of default by counterparties is material and Note 21 details the loss allowance provision was recognised during the Track Record Period.

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have grouped based on shared credit risk characteristics and the days past due. The provision is determined as follows:

	Not yet due to less than 3 months past due	**3 to 9 months past due**	**9 to 21 months past due**	**21 to 33 months past due**	**Over 33 months past due**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017						
Expected loss rate	0.5%	5%	20%	50%	100%	
Gross carrying amount	778,377	—	—	—	—	778,377
Loss allowance provision	3,892	—	—	—	—	3,892
As at 31 December 2018						
Expected loss rate	0.5%	5%	20%	50%	100%	
Gross carrying amount	883,628	—	—	—	—	883,628
Loss allowance provision	4,418	—	—	—	—	4,418
As at 31 December 2019						
Expected loss rate	0.5%	5%	20%	50%	100%	
Gross carrying amount	1,055,234	—	—	—	—	1,055,234
Loss allowance provision	5,276	—	—	—	—	5,276
As at 30 June 2020						
Expected loss rate	1%	7%	28%	70%	100%	
Gross carrying amount	786,927	—	—	—	—	786,927
Loss allowance provision	7,869	—	—	—	—	7,869

As at 31 December 2017, 2018, 2019 and 30 June 2020, the fair value of trade receivables approximated their carrying amounts. For the years ended 31 December 2017, 2018, 2019, there was no material change in the structure and credit status of the customers of the Group. For the six months ended 30 June 2020, the directors of the Group considered the effects of Coronavirus disease 2019 ("COVID-19") on the structure and credit status of the customers of the Group, and concluded that they were not significantly affected based on the information obtained up to the date of this report. The expected credit loss rates remained consistent during the years ended 31 December 2017, 2018 and 2019, and slightly increased during the six months ended 30 June 2020. The maximum exposure to credit risk at the reporting date was the carrying value of each class of receivable mentioned above. The Group does not hold any collateral or other credit enhancement over these balances.

The Group had a concentration of credit risk as certain of the Group's trade receivables were due from the Group's five largest customers as detailed below.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Five largest customers	676,590	747,853	939,992	694,223

The Group's major bank balances are deposited with banks with good reputation and with high credit-ratings assigned by international credit-rating agencies and hence management does not expect any losses from non-performance by these banks.

(b) Liquidity risk

In the management of liquidity risk, the Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants in order to maintain sufficient reserves of cash and adequate committed lines of funding from major banks to meet its liquidity requirements in the short and long term. The liquidity policies have been followed by the Group during the Track Record Period and are considered to have been effective in managing liquidity risk.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the Track Record Period.

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017					
Trade and bills payables	259,598	259,598	259,598	—	—
Other payables and accruals	88,060	88,060	88,060	—	—
Borrowings	921,787	1,022,798	649,820	53,640	319,338
Puttable shares payable	369,404	369,404	369,404	—	—
Lease Liabilities	—	—	—	—	—
Amount due to an ultimate holding company	—	—	—	—	—
Amounts due to shareholders	23,241	23,241	23,241	—	—
Amount due to a related party	12,474	12,474	12,474	—	—
	1,674,564	1,775,575	1,402,597	53,640	319,338
As at 31 December 2018					
Trade and bills payables	266,831	266,831	266,831	—	—
Other payables and accruals	52,767	52,767	52,767	—	—
Borrowings	768,201	816,348	523,833	89,003	203,512
Puttable shares payable	349,452	349,452	349,452	—	—
Lease Liabilities	—	—	—	—	—
Amount due to an ultimate holding company	4	4	4	—	—
Amounts due to shareholders	—	—	—	—	—
Amount due to a related party	—	—	—	—	—
	1,437,255	1,485,402	1,192,887	89,003	203,512

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019					
Trade and bills payables	270,981	270,981	270,981	—	—
Other payables and accruals	61,965	61,965	61,965	—	—
Borrowings	656,016	695,100	563,607	64,802	66,691
Puttable shares payable	—	—	—	—	—
Lease Liabilities	2,422	2,795	2,795	—	—
Amount due to an ultimate holding company	13	13	13	—	—
Amounts due to shareholders	—	—	—	—	—
Amount due to a related party	—	—	—	—	—
	991,397	1,030,854	899,361	64,802	66,691

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 June 2020					
Trade and bills payables	184,651	184,651	184,651	—	—
Other payables and accruals	42,203	42,203	42,203	—	—
Borrowings	615,741	649,304	524,315	58,298	66,691
Puttable shares payable	—	—	—	—	—
Lease Liabilities	617	713	713	—	—
Amount due to an ultimate holding company	24	24	24	—	—
Amounts due to shareholders	356	356	356	—	—
Amount due to a related party	—	—	—	—	—
	843,592	877,251	752,262	58,298	66,691

(c) Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group fair value interest rate risk.

Other than cash at bank (Note 26), the Group does not have significant interest-bearing assets. Any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group.

The Group's interest rate risk arises primarily from the floating rate borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk.

At 31 December 2017, 2018, 2019 and 30 June 2020, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits (through the impact on the Group's bank borrowings which are subject to floating interest rate) by approximately RMB655,000, RMB1,053,000, RMB455,000 and RMB455,000 respectively. No impact would be on other components of consolidated equity in response to the general increase/decrease in interest rates.

The sensitivity analysis as above has been determined assuming that the change in interest rates had occurred at each of reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 25 basis point increase or decrease represents the management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

The policy to manage interest rate risk has been followed by the Group since prior years and is considered to be effective.

(d) Foreign currency risk

Currency risk refers to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign currency risk arises from the Group's assets and liabilities, which were denominated in a currency other than the functional currency at the end the Track Record Periods are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Denominated in US$				
Trade receivables	757,770	864,209	1,028,220	766,188
Cash and cash equivalents	12,640	28,210	10,226	12,000
Borrowings	(114,098)	(46,132)	—	—
Overall net exposure	656,312	846,287	1,038,446	778,188

The following table indicates the approximate effect on the profit after income tax expense in response to reasonably possible changes in the foreign exchange rates, with all other variables held constant, to which the Group has significant exposure at the end of each of the Track Record Period. The appreciation and depreciation of 1% in RMB exchange rate against US$ represents management's assessment of a reasonably possible change in currency exchange rate over the Track Record Period.

	Effect on profit after income tax			
	As at 31 December			**As at 30 June**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
US$ to RMB				
Appreciation by 1%	4,922	6,353	7,788	5,836
Depreciation by 1%	(4,922)	(6,353)	(7,788)	(5,836)

During the Track Record Period, the Group's financial assets and liabilities denominated in US$ were mainly trade receivables and bank borrowings. Trade receivables were of short maturity within 90 days; and bank borrowings denominated in US$ were repayable within one year.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during the Track Record Period.

The Group monitors capital using a gearing ratio, which is total debt divided by total capital plus total debt. Total debt is calculated as borrowings, puttable shares payable, lease liabilities, amount due to an ultimate holding company, amounts due to shareholders and amounts due to a related party (non-trade). Capital includes equity attributable to owners of the Company.

	As at 31 December			**As at 30 June**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total debt	1,326,906	1,117,653	658,451	616,738
Equity attributable to the owners of the Company	1,443,979	1,800,665	2,368,897	2,608,092
Total debt and equity	2,770,885	2,918,318	3,027,348	3,224,830
Gearing ratio	92%	62%	28%	24%

(f) Fair value

Financial instruments not measured at fair value

Financial instruments not measured at fair value include restricted bank deposits, cash and cash equivalents, trade receivables, other receivables, amounts due from/(to) shareholders/a related party/an ultimate holding company, trade and bills payables, other payables and accruals and borrowings.

Due to their short term nature, the carrying value of cash and cash equivalents, trade and other receivables and trade and other payables approximates fair value.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017, 2018, 2019 and 30 June 2020.

42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables — non-current				
Other receivables	681	3,057	1,758	—
Loans and receivables — current				
Trade receivables	774,485	879,210	1,049,958	779,057
Other receivables	20,363	1,178	1,723	3,718
Amount due from a shareholder	—	—	—	4
Amount due from a related party	—	1,500	—	—
Restricted bank deposits	34,500	42,973	1,240	500
Cash and cash equivalents	759,466	906,538	1,084,636	1,528,105
	1,588,814	1,831,399	2,137,557	2,311,384
	1,589,495	1,834,456	2,139,315	2,311,384
Financial liabilities				
Financial liabilities at amortised costs — current				
Trade and bills payables	259,598	266,831	270,981	184,651
Other payables	88,060	52,767	61,964	42,402
Borrowings	609,726	478,056	529,615	494,859
Puttable shares payable	369,404	349,452	—	—
Lease liabilities	—	—	2,422	617
Amount due to an ultimate holding company	—	4	13	24
Amounts due to shareholders	23,241	—	—	356
Amounts due to related parties	12,474	—	—	—
	1,362,503	1,147,110	864,995	722,909
Financial liabilities at amortised costs — non-current				
Borrowings	312,061	290,145	126,401	120,882
	1,674,564	1,437,255	991,396	843,791

43. CONTINGENT LIABILITIES

As at 31 December 2017, 2018, 2019 and 30 June 2020, the Group provided corporate guarantees and pledged its leasehold land to unrelated companies to secure their bank facilities and loan from financial institution for maximum liabilities of RMB141,895,078, nil, nil and nil respectively.

44. LEASE ARRANGEMENTS

Operating leases — lessee

The Group leases office premises in the PRC, warehouse and exhibition hall in the United States of America during the Track Record Period. The total future minimum lease payments under non-cancellable leases and the reconciliation to the lease liabilities recognised in the consolidated statements of financial position after adoption of HKFRS 16 on 1 January 2019 are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Minimum lease payments				
— Within one year	3,041	4,150	2,795	713
— In the second to fifth year inclusive	—	1,729	—	—
	3,041	5,879	2,795	713
Less: Future finance charge	—	—	373	96
Present value of minimum lease payments *(Note 32)*	—	—	2,422	617
Initial period of the leases	12 to 24 months	24 months	24 months	24 months

Operating leases — lessor

The Group leases its office premises in the PRC to certain tenants during the Track Record Period.

The minimum rent receivables under non-cancellable operating leases are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	153	173	125	86
In the second to fifth year	162	109	30	13
	315	282	155	99
Initial period of the lease	3 years to 5 years	2 years to 5 years	2 years to 5 years	2 years to 5 years

45. CAPITAL COMMITMENTS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Commitments for the acquisition of property, plant and equipment:				
— Contracted but not provided for	45,241	21,180	—	—

46. SUBSEQUENT EVENTS

Saved as disclosed elsewhere in this report, subsequent to 30 June 2020, the following subsequent events took place:

The emergence and spread of COVID-19 since early January 2020 has affected global business and economic activity. For the six months ended 30 June 2020, the financial performance of the Group was slightly affected. The directors of Group estimated that under the current special circumstances, the furniture industry and financial performance of the Group will inevitably and more significantly be affected by the COVID-19 since the second quarter of 2020, and expect the impact of COVID-19 on the financial result of the Group will be alleviated in the second half of 2020 at the soonest.

Considering the worst scenario that assuming full suspension of the Group's operations after June 2020, the directors expected that the Group could be financially viable for over 60 months.

Pending the development of such subsequent non-adjusting event, the Group will closely monitor the evolving situation of the COVID-19.

47. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2020.

The information set forth in this appendix does not form part of the Accountants' Report prepared by BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this document and the Accountants' Report set forth in Appendix I to this document.

(A) UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about how the Global Offering might have affected the consolidated net tangible assets of the Group after the completion of the Global Offering as if the Global Offering had taken place on 30 June 2020. Because of its hypothetical nature, this unaudited pro forma financial information may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed on 30 June 2020 or at any future dates.

The following statement of unaudited pro forma consolidated net tangible assets of the Group is prepared on the basis of the notes set forth below, for the purpose of illustrating the effect of the Share Offer as if it had taken place on 30 June 2020. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group after the Share Offer or at any future dates.

	Consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma consolidated net tangible assets of the Group**	**Unaudited pro forma consolidated net tangible assets per Share**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on Offer Price of HK$1.57 per Share	2,608,092	948,875	3,556,967	1.19	1.41
Based on Offer Price of HK$1.86 per Share	2,608,092	1,128,089	3,736,181	1.25	1.48

Notes:

1. The consolidated net tangible assets of the Group as at 30 June 2020 is extracted from the Accountants' Report set forth in Appendix I to the prospectus, which is based on consolidated net assets of the Group as at 30 June 2020 of RMB2,608,092,000.

2. The estimated net proceeds from the Share Offer are based on 750,000,000 new Shares to be issued at the estimated offer price of HK$1.57 and HK$1.86 per Share after deduction of the underwriting fees and other related expenses expected to be incurred by the Group subsequent to 30 June 2020 (excluding listing related expenses of approximately RMB23.5 million already recognised in profit or loss prior to 30 June 2020) payable by our Group. No account has been taken of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.

3. The unaudited pro forma consolidated net tangible assets per Share is calculated based on 3,000,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue assuming the Share Offer had been completed on 30 June 2020, but takes no account of any Shares which may be issued pursuant to the exercise of any options may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus.

4. For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the rate of RMB0.8451 to HK$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

5. No adjustment has been made to the unaudited pro forma consolidated net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2020.

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for inclusion in this document, received from the independent reporting accountant of the Group, BDO Limited, Certified Public Accountants, Hong Kong.

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INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Huisen Household International Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Huisen Household International Group Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of consolidated net tangible assets of the Group as at 30 June 2020 and related notes as set out in Section A of Appendix II on pages II-1 to II-5 of the Company's document dated 14 December 2020 (the "**Document**") in connection with the proposed global offering of the Company (the "**Global Offering**"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on pages II-1 to II-5 of Appendix II of the Prospectus.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Global Offering on the Group's consolidated financial position as at 30 June 2020 as if the Global Offering had taken place at 30 June 2020. As part of this process, information about the Group's consolidated financial position as at 30 June 2020 has been extracted by the directors of the Company from the Group's historical financial information for the six months ended 30 June 2020, on which an accountants' report set out in Appendix I of the Document has been published.

DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANT'S RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in a document is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Global Offering at 30 June 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong

14 December 2020

OVERVIEW OF PRC LAW AND REGULATIONS

Following is a summary of the material laws and regulations related to our business and industry of our principal place of operation as at the Latest Practicable Date.

1. Furniture Manufacturing

According to the Instructions for Use Products of Consumer Part 6: Furniture (GB5296.6-2004) (the "Instruction") which was promulgated by Standardisation Administration of the PRC and the General Administration of Quality Supervision, Inspection, and Quarantine of the PRC on 1 October 2004, it provides the basic requirements, methods, and contents to be included for the preparation of furniture manuals, which include the following: (1) a manual must be included with all sales of furniture; (2) in accordance with the national or industrial standards, the name of the furniture items must reflect the real items; (3) the manual must clearly define the purpose and application under the specified environmental conditions; (4) the furniture items must comply with relevant national safety, health, environmental protection laws, rules, regulations and standards; (5) the manual must also specify any special attention required for the usage of such furniture items; (6) the manual should be amended accordingly when the structure, form and material changes; (7) all manuals must clearly state the description and production date of the furniture items and date of publication of the manual; (8) the information contained in the manual must be consistent with the related advertisements and promotional materials; and (9) if applicable, the manual must state "Before installation or usage, please read the instructions carefully." on the cover page.

1.1 Upholstered Furniture

According to the *Standard for the Light Industry: Software Furniture Sofa (QB/T 1952.1-2012) (*The "Standard") which was promulgated by the Ministry of Industry and Information Technology of the PRC on 7 November 2012 and came into effect on 1 March 2013, the sofa used indoors is suitable for the Standard. The Standard defines the terms and definitions of the sofa, the classification of the sofa, the product requirements of the sofa, the proofing test of the sofa, the measure and procedure for products inspection of the sofa, the standards and requirements for the logotype, package, transportation and storage of the sofa.

1.2 Metal furniture

According to the *General Technical Requirements for Metal Furniture (GB/T 3325-2017)* (*the "Requirements"*) which was promulgated by the Standardisation Administration of the PRC and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC on 29 September 2017 and came into effect on 1 April 2018, the Requirements include the terms and definitions of metal furniture; the product requirements of metal furniture; proofing test methods, measures and procedure for product inspection of metal furniture; the logotype, instructions for use, package, transportation and storage of metal furniture.

1.3 Panel Furniture

According to the *Wooden Furniture-Quality test and quality evaluation (QB/T1951.1-2010)* (the "*Evaluation*") which was promulgated by the Ministry of Industry and Information Technology of the PRC on 22 April 2010 and came into effect on 1 October 2010, panel furniture is included. The Evaluation contains the terms and definitions of wooden furniture; the methods of proofing test for wooden furniture; the measure and procedure for product inspections of wooden furniture; the logo type; instructions for use, package, transportation and storage of wooden furniture.

2. Foreign Investment

2.1 Foreign-Invested Enterprises

According to the *Company law of the PRC* (*the "Company Law"*) which was promulgated by the Standing Committee of the National People's Congress of the PRC on 29 December 1993 and newly amended and came into effect on 26 October 2018, it regulates the rule of the establishment, management, operation and otherwise of a company under the jurisdiction of China.

According to the Provisions on Guiding the Orientation of Foreign Investment (《指導外商投資方向規定》) (No. 346 Order of the State Council) (issued by the State Council on 11 February 2002 and came into effect on April 1, 2002), foreign investment projects are divided into four categories, namely "encouraged", "permitted", "restricted" and "prohibited" categories. Foreign investment projects of the encouraged, restricted and prohibited categories are listed in the Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》). Foreign investment projects that are not of the encouraged, restricted and prohibited categories belong to the permitted foreign investment projects which are not listed in the Catalogue of Industries for Guiding Foreign Investment.

Pursuant to the Interim Administrative Measures for the Record-filing of the Establishment and Modifications of Foreign Investment Enterprises (the "Measures") (《外商投資企業設立及變更備案管理暫行辦法》) promulgated by Ministry of Commerce on 8 October 2016, amended on 30 July 2017 and 29 June 2018, Interim Administrative Measures shall apply to the establishment and modifications of foreign investment enterprises that are not subject to the approval under the special entry management measures. Where the establishment of foreign investment enterprise falls within the scope of Interim Administrative Measures, when the representatives of the enterprise go through the registration procedures for the establishment with the competent administrations for industry commerce and market supervision, they shall file the recording-filing information with the foreign investment comprehensive administration information system in accordance with Interim Administrative Measures.

On 30 December 2019, the Ministry of Commerce and the State Administration of Market Regulation issued the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which came into effect on 1 January 2020 and replaced the Measures. Since 1 January 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to these measures.

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the "FIL"), which was promulgated by the National People's Congress of the PRC on 15 March 2019 and came into effect on 1 January 2020, replaced the Sino-Foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法》) to become the legal foundation for foreign investment in the PRC. The FIL sets out the definition of foreign investment and the framework for promotion, protection and administration of foreign investment activities.

On December 26, 2019, the State Council issued the Regulations on Implementing the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), which came into effect on January 1, 2020 and replaced the Regulations on Implementing the Sino-Foreign Equity Joint Venture Enterprise Law, Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law, the Regulations on Implementing the Wholly Foreign-Invested Enterprise Law and the Regulations on Implementing the Sino-foreign Cooperative Joint Venture Enterprise Law. According to the Implementing Rules for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), foreign-invested enterprises established in accordance with the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC, the Wholly Foreign-Owned Enterprise Law of the PRC and the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC before the implementation of the FIL may adjust their organisation forms and organisations as prescribed by the Company Law of the People's Republic of China and the Partnership Enterprise Law of the People's Republic of China and other relevant laws and complete the registration of change according to the law and may also retain their original organisation forms and organisations within five years after the implementation of the FIL.

According to the Special Administrative Measures for Access of Foreign Investment (Negative List) (Edition 2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) issued by the NDRC and the MOFCOM on 23 June 2020 and came into effect on 23 July 2020, the manufacture of furniture products does not fall into such categories which foreign investment is restricted or prohibited.

2.2 Import and Export of Commodities.

According to the *Foreign Trade Law of the PRC (2016 Revision)* (the "*Foreign Trade Law*") which was promulgated by the PRC National People's Congress on 12 May 1994 and was amended and came into effect on 7 November 2016, the PRC may restrict or prohibit the import or export of relevant goods or technologies for any of the following reasons: (1) the PRC needs to limit or prohibit import or export in order to maintain national security, public interests or public morals; (2) the PRC needs to restrict or prohibit import or export in order to protect the health or safety of the people, the lives or health of animals and plants, and the environment; (3) the PRC needs to restrict or prohibit import or export in order to implement measures related to gold or silver import and export; (4) the PRC needs to restrict or prohibit export due to short supply in the PRC or in order to efficiently protect natural resources that are likely to be exhaustible; (5) the PRC needs to restrict export due to the limited market capacity of importing countries or regions; (6) the PRC needs to restrict export due to the serious disorder of export; (7) the PRC needs to restrict import in order to establish or step up establishing specific industries in the PRC; (8) it is necessary to restrict the import of agricultural, animal husbandry and fishery products in any form; (9) the PRC needs to restrict import in order to maintain the State's international financial status and balance of global payments; (10) the State needs to restrict or prohibit import or export for other reasons in accordance with the provisions of laws and administrative regulations; and (11) the PRC needs to restrict or ban import or export for different reasons in accordance with the provisions of international treaties and agreements that China has concluded or acceded to. As for our products namely upholstered furniture, panel furniture and Metal Furniture Products, none of them belongs to the Category for Restricted Industries for Foreign Investment nor Category for Prohibited Industries for Foreign Investment as per the Foreign Trade Law.

According to the *Foreign Trade Law and the Measures for the Archival Filing and Registration of Foreign Trade Operators* which was promulgated by the Ministry of Commerce of the PRC, newly amended and came into effect on 30 November 2019, enterprises engaged in import or export of goods or technology need to register with the relevant authorities in charge of foreign trade under the State Council unless otherwise provided by other laws, administrative regulations or by the competent authorities in charge of international trade under the State Council.

According to the *Customs Law of the PRC* which was promulgated by the Standing Committee of the National People's Congress on 22 January 1987 and newly amended on 4 November 2017 and came into effect on 5 November 2017, where an enterprise engages in import or export of goods which goes through customs declaration formalities, it shall be subject to registration by customs. The Council of State promulgated the *Regulation of the PRC on Foreign Exchange Administration* on 29 January 1996. This regulation was newly amended on 5

August 2008. By this regulation, international traders who are engaging in the import and export should register on Foreign Exchange Registration and process the foreign exchange settlement.

According to the *Administrative Provisions of the PRC on the Registration of the Customs Declaring Entities* promulgated by the General Administration of Customs of the PRC and newly amended and came into effect on 1 July 2018, a declaring entity shall go through the registration procedures at the customs in accordance with these provisions. Registration of declaring entities shall be divided into the registration of declaring enterprises and the registration of consignees or consignors of import or export goods.

According to the *Law of the PRC on Import and Export Commodity Inspection* (中華人民共和國進出口商品檢驗法) promulgated on 21 February 1989 and newly amended on 29 December 2018 and its implementation regulations, which were promulgated on 31 August 2005 and newly amended and came into effect on 2 March 2019, the consignee or consignor of imported or exported goods may complete the clearance declaration with the customs themselves or entrust commodity clearance agency firms to complete the declaration procedures. The government has adopted a filing and registration administration system for enterprises completing the declaration themselves. The consignee or consignor of imported or exported goods shall file with the relevant entry-exit inspection and quarantine authority according to law when handling the customs clearance procedures.

3. Production Safety

According to *the Production Safety Law of the PRC* (中華人民共和國安全生產法) promulgated by the Standing Committee of the National People's Congress of the PRC on 29 June 2002, became effective on 1 November 2002 and amended on 27 August 2009 and 31 August 2014 respectively, production and operation entities shall observe the aforementioned Production of Safety Law of the PRC and other relevant laws and regulations relating to production safety, strengthening the administration of production safety, establishing and perfecting the production safety responsibility system, improving the conditions for safe production, promoting the standardised construction for safe construction, improving the level of production safety and ensuring safety in production. The production and operation entities shall offer education and training programmes to their employees regarding production safety so as to ensure that the employees have the necessary knowledge of production safety, are familiar with the relevant regulations and rules for safe production and the rules for safe operation, and master the skills for safe operations for their own positions, while also getting to know the emergency measures for dealing with accidents and are aware of their own rights and obligations in terms of safe production.

4. Products Liability

According to the *General Principles of the Civil Law of the PRC* which was promulgated by Standing Committee of the National People's Congress and came into effect on 1 January 1987 and was amended on 27 August 2009, manufacturers and sellers of defective products are subject to civil liability for damages or injuries caused by their products. Liable manufacturers and sellers may seek indemnification from shippers or storers of the products who are actually responsible for the damages or injuries.

According to the *Product Quality Law of the PRC* (*the "Product Quality Law"*) which was promulgated by the Standing Committee of National People's Congress and came into effect on 1 September 1993 and was newly amended on 29 December 2018, *the Product Quality Law* applies to all production and marketing activities within the territory of the PRC . The producer shall bear the liability for damages due to defects in the product that causes damage to property other than personal or defective products.

According to the *Tort Law of the PRC* (*the "Tort Law"*) which was promulgated by the Standing Committee of National People's Congress on 26 December 2009 and came into effect on 1 July 2010, a producer shall be subject of tort liability for damages to other persons due to defects existing in the products, while a seller shall be subject to tort liability for damages to other persons caused by defects existing in the products that result from the fault of the seller.

5. Consumer Production

According to the Law of the PRC on the protection of Consumer Rights and Interests (the "Consumer Protection Law") which was promulgated by the Standing Committee of National People's Congress and came into effect on 31 October 1993 and was newly amended on 25 October 2013, the rights and interests of the consumer who buy or use commodities for the purposes of daily consumption or those who receive services are protected and all producers, service providers and distributors involved must ensure that the products and services will not cause damage to persons and properties. According to the Consumer Protection Law, unless otherwise provided by this law, a business that provides products or services shall, in any of the following circumstances, bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations: (i) where a defect exists in a product; (ii) where a commodity does not possess functions it is supposed to possess, and it is not declared when the product is sold; (iii) where the product standards indicated on a product or on the package of such product are not met; (iv) where the quality condition indicated by way of product description or physical sample, etc. is not met; (v) where products pronounced obsolete by formal State decrees are produced or have expired or deteriorated commodities are sold; (vi) where a sold product is not adequate in quantity; (vii) where the service items and charges are in violation of an agreement; (viii) where demands by a consumer for repair, redoing, replacement, return, making up the quantity of a product, refund of a product purchase price or service fee or claims for compensation have been delayed deliberately or rejected without reason; or (ix) in other circumstances whereby the rights and interests of consumers, as provided by the PRC laws and regulations, are harmed.

6. Employment and Social Insurance

6.1 labour Relationship

Labour Contract Law of the PRC (*the* "*Labour Contract Law*") was promulgated by Standing Committee of the National People's Congress on 29 June 2007 and came into effect on 1 January 2008, and was amended on 28 December 2012 and the *Regulation of the Implementation of the Employment Contract Law* (*the* "Regulation of Employment Contract Law") which was promulgated by the State Council of the PRC and came into effect on 18 September 2008. *Labour Contract Law* and *Regulation of Employment Contract Law* stipulates the conclusion, performance, change, dissolution or termination of labour relations.

6.2 Social Insurance

Interim Regulation on the Collection and Payment of Social Insurance Premiums (*the "Interim Regulation of Social Insurance Premiums*") was promulgated on 22 January 1999 and was newly amended and came into effect on 24 March 2019. Interim Regulation of Social Insurance Premiums is formulated to regulate the collection and payment of basic pension, basic medical insurance premiums and unemployment insurance premiums in accordance with the relevant laws. A social insurance system including endowment insurance, essential medical insurance, employment injury insurance, unemployment insurance and maternity insurance shall be established to protecting and guarantee the legitimate rights of citizens participating in the social insurance.

Social Insurance Law of the PRC(*the "Social Insurance Law"*) was promulgated by Standing Committee of the National People's Congress on 28 October 2010 and was newly amended and became effective on 29 December 2018. *Social Insurance Law* integrated the existing rules and regulations of social insurance combining with new articles and policies if individuals are employed across different overall coordination regions their basic pension insurance, basic medical insurance and unemployment insurance accounts of employees shall be transferred with them. According to the *Interim Regulation of Social Insurance Premiums*, the employer shall report to the social insurance agency the amount of social insurance premiums payable and pay its social insurance premiums within the prescribed time limit upon the assessment of the social insurance agency.

Other Relating Regulations:

(1) *Regulation on the Administration of Housing Accumulation Funds* was promulgated by State Council and came into effect on 3 April 1999 and was amended on 24 March 2019. This Regulation applies to the deposit, withdrawal, use, management of housing accumulation funds within the territory of the PRC and maintain the legitimate rights of employees who engage in housing accumulation funds.

(2) Regulation of Work-Related Injury Insurance (2010 Revision) was promulgated on 27 April 2003 and came into effect on 1 January 2004 and was amended on 20 December 2010. The Regulation is formulated to protect and guarantee the employees who injured from accident at work or who suffer from occupational diseases to obtain medical care and economic compensation.

(3) Notice of Ministry of Labour on the Childbirth Insurance for Enterprise Employee was promulgated by Ministry of labour (Reversed) on 14 December 1994 and came into effect on 1 January 1995. This Notice is formulated by the labour law aforementioned, to protect and guarantee the legitimate rights of female employees.

7. Environmental Protection

According to the *Environmental Protection Law of the PRC* (the *"Environmental Law"*) which was promulgated by Standing Committee of the National People's Congress on 26 December 1989 and was amended on 24 April 2014 and came into effect on 1 January 2015, enterprises shall take effective measures to reduce their pollution from manufacturing and construction process stipulated by Environmental Law. An environmental protection system shall be established within the enterprise by this law to clarify and allocate the respective liabilities for both enterprise and individual. As per the law above, the enterprise shall truthfully disclose the names of their primary pollutants, discharge ways, emission concentration and total emissions, as well as excessive emissions.

Water Pollution Prevention and Control Law of the PRC was promulgated on 11 May 1984 by Standing Committee of the National People's Congress, newly amended on 27 June 2017, and came into effect on 1 January 2018. *Atmospheric Pollution Prevention and Control Law of the PRC* was issued on 5 September 1987 and came into effect on 1 January 2016 and was newly amended on 26 October 2018. *Law of the PRC on Prevention and Control of Pollution from Environmental Noise* was promulgated on 29 October 1996 by Standing Committee of the National People's Congress and was newly amended and became effective on 29 December 2018. *Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Wastes*, was promulgated by Standing Committee of the National Peoples' Congress on 30 October 1995 and was newly amended on 29 April 2020 and became effective on 1 September 2020. These laws regulate the pollution into the water, air, environmental noise and solid wastes produced by enterprise within the territory of China.

Besides, *Law of the PRC on Environmental Impact Assessment*, promulgated by Standing Committee of the National People's Congress on 28 October 2002, was newly amended and became effective on 29 December 2018. This law is formulated to specify the required environmental information of disclosure which includes the subjects of the disclosure, the range of the disclosed information, measures of disclosure, credit evaluation system for this disclosure, legal liabilities for the inappropriate disclosure and so on.

According to the *Regulations on the Administration of Construction Project Environmental Protection* which was promulgated by State Council on 29 November 1998 and was amended on 16 July 2017 and became effective as at 1 October 2017, the project owner shall submit the documents about the environmental impact of the construction to the environmental protection administrative department before starting the construction of a project. The environmental protection facilities shall go hand in hand with the design, construction and implementation of the major project in hand.

8. Merger and Acquisition

Interim Provisions on the Takeover of Domestic Enterprises by Foreign Investors (the "Order No. 10") was jointly issued by Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration of Taxation, State Administration for Industry & Commerce, the China Security Regulatory Commission, and the State Administration of Foreign Exchange (SAFE) on 8 August 2006. Order No.10 was revised by Provisions of the Ministry of Commerce on M& A of a Domestic Enterprise by Foreign Investors (the "Order No.6") which was issued by Ministry of Commerce and came into effect on 22 June 2009. According to the Order No.6, the following scenarios qualify as an acquisition of a domestic enterprise by a foreign investor: (1) a foreign investor purchases by agreement the equity interests of a domestic enterprise without foreign investment of subscribes for the increased capital of a domestic enterprise without foreign investment, and thus converts the domestic enterprise without foreign investment into a foreign-invested enterprise; (2) a foreign investor establishes a foreign-invested enterprise and use such foreign-invested enterprise to purchase by agreement the assets of a domestic enterprise and operates such assets; (3) a foreign investor purchases by agreement the assets of a domestic enterprise and then contribute such assets as capital to establish a foreign-invested enterprise and operates such assets.

9. Foreign Exchange Control

According to the *Regulation of the PRC on Foreign Exchange Administration* which was promulgated on 29 January 1996 and was newly amended on 5 August 2008, Renminbi can be converted freely only for current account items. Regarding capital account items such as direct equity investment, loan and recouping of investment, conversion of Renminbi into foreign currencies and outward remittance of foreign currencies from China shall be subject to approval by the State Administration of Foreign Exchange or other units authorised by the State Administration of Foreign Exchange.

According to the *Circular of State Administration of Foreign Exchange on the Reform of Administrative Approach for the Settlement of Foreign Exchange Capital Funds of Foreign-funded Enterprises* which was promulgated on 30 March 2015 and effective as from 1 June 2015, the voluntary settlement of foreign exchange capital funds for foreign-funded enterprises will be implemented. The foreign exchange capital funds in a foreign-funded enterprise's capital account which have been recognised by a foreign exchange bureau as the interests of monetary capital contributions or registered with a bank as commercial capital contributions, can be settled in banks according to such enterprise's actual business operation requirements. The provisional percentage for the voluntary settlement of foreign exchange capital funds for foreign-funded enterprises is 100%.

According to the *Circular of State Administration of Foreign Exchange on Reforming and Regulating the Management Policies Regarding the Settlement under Capital Account* which was promulgated on 9 June 2016 and effective as from the same date, the reform on the management of the settlement of foreign debt capital of enterprises is promoted nationwide. Meanwhile, the voluntary settlement and payment management of foreign exchange income under the capital items are standardised. Foreign debt capital of domestic enterprises (including China-affiliated enterprises and foreign-funded enterprises and excluding financial institutions) may be settled voluntarily. The provisional percentage for the voluntary settlement of foreign exchange income under the capital items for domestic institutions is 100%.

Notice of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration of the Financial and the Round-Tripping Investment Made by Domestic Residents through Special Purpose Companies was issued by SAFE on 21 October 2005 and came into effect on 1 November 2005. The notice was repealed and replaced by another document — *Notice of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration of the Overseas Investment and Financial and the Round — Tripping Investment Made by Domestic Residents through Special Purpose Companies* (the "Notice No.37") which was issued by the SAFE on 4 July 2014. In accordance with Notice No.37, the term "Special-purpose Company" as mentioned in this notice means an overseas enterprise directly formed or indirectly controlled for investment or financing purposes by a domestic resident (domestic institution or domestic resident individual) with the assets or interests it legally holds in a domestic enterprise, or with the overseas assets and interests it legally holds.

Notice No.37 has narrowed the scope of the foreign-owned enterprises which required registration. Besides, according to Notice No.37, the formation of special-purpose companies by domestic residents shall be subject to registration with the SAFE and its branch offices. Further, the scope of modification registration procedure for a domestic resident individual or a combination is limited to the change in the domestic resident individual shareholder, name, capital increase/decrease or equity transfer/replacement of the Special-purpose Company.

According to the *Circular of State Administration of Foreign Exchange on Simplifying and Improving the Foreign Currency Management Policy on Direct Investment* which was promulgated on 13 February 2015 and came into effect on 1 June 2015, investors shall register with banks to have the registration of foreign exchange under direct domestic investment and direct overseas investment.

10. Tax

10.1 Enterprise Income Tax

According to the *Enterprise Income Tax Law* of the PRC which was promulgated by the National People's Congress on 16 March 2007 and was amended on 29 December 2018 and *the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC* which was promulgated by the State Council on 6 December 2007 and was newly amended and came into effect on 23 April 2019, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises in the PRC are subject to enterprise income tax at a rate of 25%. A non-resident enterprise that has an establishment or premises within the PRC shall adopt enterprise income tax at a rate of 25% on its income that is derived from such establishment or premises inside the PRC, and that is sourced outside the PRC but is connected with the said established or premises. A non-resident enterprise that has no establishment or premises within the PRC but has income from the PRC, and a non-resident enterprise that has establishment or premises in the PRC but its income has no actual connection to such establishment or premises in the PRC, shall be subject to PRC withholding tax at the rate of 10% on its income sourced from the PRC.

Pursuant to the Notice of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation of Tax Policy Issues concerning Further Implementing the Western China Development Strategy, from 1 January 2011 to 31 December 2020, the enterprise income tax on an enterprise in an encouraged industry established in western China shall be paid at the reduced rate of 15%. The aforesaid "enterprise in an encouraged industry" refers to an enterprise whose business falls within the scope of industry projects set out in the Catalogue of Encouraged Industries in Western China and whose revenue from its main business accounts for 70% or more of its gross income.

According to the *Notice of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Issues concerning the Implementation of the Tax Policies for the Development of Western China in Ganzhou* (財政部、海關總署、國家稅務總局頒發的《關於贛州市執行西部大開發稅收政策問題的通知》(財稅(2013)4號)) and *Notice of the Jiangxi Provincial Department of Finance, the Jiangxi Provincial State Taxation Bureau and the Local Taxation Bureau of Jiangxi Province on Issues concerning the*

Implementation of the Policies for the Development of Western China in Ganzhou in respect of EIT (《關於深入實施贛州市執行西部大開發政策有關企業所得稅問題的公告》(2013年第1號)) from 1 January 2012 to 31 December 2020, the domestic and foreign-invested enterprises incorporated in Ganzhou may enjoy a reduction of 15% in the rate of enterprise income tax. Pursuant to the Announcement on Continuation of EIT Policies for the Development of Western China ((財政部、國家稅務總局、國家發展改革委《關於延續西部大開發企業所得稅政策的公告》(財政部公告2020年第23號)) which was promulgated by the Ministry of Finance, the State Administration of Taxation and the National Development and Reform Commission on 30 April 2020 and will become effective on 1 January 2021, Huiming Wood, Huisen Furniture and Huisen Mingda, are expected to be eligible to enjoy preferential tax treatment aforementioned, subject to fulfillment of the necessary requirements, during the period from 1 January 2021 to 31 December 2030.

According to the *Arrangement between Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion on Income*, which was promulgated on 21 August 2006 and came into effective on 8 December 2006, Chinese resident enterprise owes the tax duty when distributing dividends to its Hong Kong shareholders. If the beneficial owner of the dividends is an enterprise owned by Hong Kong resident, which directly holds no less than 25% overseas equity interests of the enterprise hereof, the tax rate of distributed dividends is 5% hereof; If the beneficial owner is an enterprise owned by Hong Kong resident, which directly holds less than 25% equity interest in the aforesaid enterprise, the tax of the distributed dividends is 10%.

10.2 Value Added Tax

According to the *Interim Regulations of the PRC on Value-added Tax* which was promulgated by the State Council on 13 December 1993 and was latest amended on 19 November 2017 and the *Detail Rules for Implementation of the Interim Regulations of the PRC on Value-Added Tax* which was promulgated by the Ministry of Finance and the State Administration of Taxation on 25 December 1993 and came into effect on 25 December 1993 and was newly amended on 28 October 2011 and came into effect on 1 November 2011, all entities and individuals in the PRC engaging in sale of goods or labour services of processing, repair or replacement are required to pay value-added tax. Except for otherwise provided, the general rate of value-added tax is 17%. Adjustments to the tax rates shall be decided by the State Council. In accordance with the *Notice of Ministry of Finance and State Administration of Taxation on the Adjustment of Value-added Tax* which was promulgated by the Ministry of Finance and the State Administration of Taxation on 4 April 2018 and came into effect on 1 May 2018, the rate of Value-added Tax were adjusted. To be specific, where a taxpayer engages in a taxable sales activity for the Value-added Tax purpose or imports goods, the previous applicable 17% tax rates were adjusted to 16%.

In accordance with the *Notice of Ministry of Finance and State Administration of Taxation on the Adjustment of export rebate rate of some products* which was promulgated by the Ministry of Finance and the State Administration of Taxation on 22 October 2018 and came into effect on 1 November 2018, except for the products mentioned otherwise, the export rebate rate of the export products has increased from 15% to 16%.

According to *Announcement on Policies for Deepening the Value-added Tax Reform* which was promulgated by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on 20 March 2019 and came into effect on 1 April 2019, the rate of Value-added Tax has been adjusted. To be specific, (1) for general Value-added Tax payers' sales activities or imports that are subject to Value-added Tax at an existing applicable rate of 16%, the applicable Value-added Tax rate is adjusted to 13%; (2) for the exportation of goods or labour services that are previously subject to Value-added Tax at 16%, with the applicable export refund at the same rate, both the applicable Value-added Tax rate and export refund rate are adjusted to 13%.

10.3 Stamp Tax

According to the *Interim Regulation of the PRC on Stamp Tax* which was promulgated by the State Council on 6 August 1988 and came into effect on 1 October 1988 and was amended on 8 January 2011, the entities and individuals who write or receive the certificate listed on the Interim Regulation of the PRC on Stamp Tax are deemed as taxpayers and have the obligation to pay Stamp Duty. The rate of Stamp Duty for transaction contract and the technical contract are 0.03% of the contract value. Regarding the business book, the rate of Stamp Duty is 0.05% of the sum of both the original value of fixed assets in the capital account and the value of the floating fund.

10.4 Enterprise Income Tax for indirect transfer of properties by non-resident enterprise

According to *the Announcement No. 7 [2015] of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on the Indirect Transfers of Assets by Non-Resident Enterprises* (國家稅務總局公告2015年第7號 — 關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the No.7 Circular), which was released on 3 February 2015, where a non-resident enterprise indirectly transfers equities or other assets of a PRC resident enterprise by implementing arrangements that are not for bona fide commercial purposes to avoid its obligation to pay enterprise income tax, such an indirect transfer shall, in accordance with Article 47 of the EIT Law, be recognised by the competent PRC tax authorities as a direct transfer of equities or other assets of the PRC resident enterprise.

11. Laws and Regulations Related to Intellectual Property Protection

11.1 Patent

According to the *Patent Law of the PRC* which was promulgated by the Standing Committee of the National People's Congress on 12 March 1984 and came into effect on 1 April 1985 and was newly amended on 27 December 2008 and came into effect on 1 October 2009 and *the Regulation on the Implementation of the Patent Law of the PRC* which was promulgated by the State Council on 15 June 2001 and came into effect on 1 July 2001 and was newly amended on 9 January 2010 and came into effect on 1 February 2010, the State Intellectual Property Office of the PRC shall take charge of patent administration across the country. The inventor or designer have the rights to apply for the invention patent right, utility model patent right or design patent right. The duration of the invention patent right shall be 20 years, and that of the utility model patent right or design patent right shall be 10 years, commencing from the date of application. Following the grant of design patent rights, no organisation or individual shall implement the patent without licencing from the patentee. Any unauthorised use of a patent constitute an infringement of patent right of the patentee.

11.2 Trademark

According to the *Trademark Law of the PRC* which was promulgated by the Standing Committee of the National People's Congress on 23 August 1982 and came into effect on 1 March 1983 and was newly amended on 23 April 2019 and came into effect on 1 November 2019 and *the Regulation on the Implementation of the Trademark Law of the PRC* which was promulgated by the State Council on 3 August 2002 and came into effect on 15 September 2002 and was amended on 29 April 2014 and came into effect on 1 May 2014, the Trademark Bureau of the administrative department for industry and commerce of the State Council shall take charge of trademark registration and administration across the country. A registered trademark shall be valid for 10 years, commencing from the date of registration approval. A trademark registrant may apply to renew a registered trademark within the 12-month period before the expiry date. For the trademark registrant who fails to apply within the stipulated period, a 6-month extension period may be allowed. If the trademark registrant fails to apply to renew the trademark within the 6-month extension period, the registered trademark shall be cancelled. The validity period of each renewal shall be 10 years, commencing from the date of registration approval.

OVERVIEW OF U.S. LAW AND REGULATIONS

Following is a discussion of material laws and regulations of U.S., our major export country, to which our products are exported as at the Latest Practicable Date.

(1) Consumer Protection, Product Safety and Product Liability Law

In the U.S., there are two separate and distinct areas of law that may apply to product defects or injuries caused by a product, namely product safety regulation and product liability law. Product safety regulations is a body of administrative law pertaining to product requirements and rules that are enforced by various government agencies, depending on the product. Product liability law governs litigation of product accidents and injuries in which a plaintiff may be entitled to recover monetary damages. Exposure to U.S. products liability law can be broad and allows consumers to sue a party who designed, manufactured, sold or supplied an offending product, whether that causes an injury or in some cases where there is a likelihood that a product could cause injury. Exposure to either product safety regulation or product liability laws in the U.S. is limited to the jurisdictional power of the courts in U.S. and administrative agencies.

Product liability law

Product liability law deals with private litigation associated with product defects including accidents and exposure to toxic materials associated with products. It is a body of law that comes into play after a product has been placed in the marketplace and an accident or exposure has occurred. There are four basic theories of recovery when dealing with a product alleged to be defective; (i) strict products liability; (ii) negligence; (iii) breach of warranty; and (iv) tortious misrepresentation. A plaintiff can assert any and all theories simultaneously. In addition, all four theories have broad application to a vast array of products.

Strict products liability is liability without fault and is generally the most common cause of action asserted in lawsuits involving allegedly defective products. This is because, unlike negligence, strict products liability does not depend on the degree of care exercised by the defendant. The analysis depends solely on the product and whether it was dangerous or defective at the time it enters the marketplace. A product can be considered defective in its manufacture it does not conform to design specifications or performance standards, or deviates in some material ways from otherwise identical units of the same product line. A product can also be defective in its design. A product has a design defect when its design or configuration makes it unreasonably dangerous for its intended use. Finally, product liability may be imposed if the product lacks adequate warnings or instructions about the product's use. In strict product liability, it is irrelevant whether the manufacturer or supplier exercised all due care in the design, manufacture, or marketing of the product; if there is a defect in the product or its warnings or instructions that causes harm, the manufacturer may be held liable. Negligence actions requires a plaintiff to show (i) the defendant owed the plaintiff a duty of due care; (ii) the defendant breached that duty by furnishing a defective product; and (iii) the defendant's breach caused the plaintiff's injury. The analysis focuses on the acts or omissions of the manufacturer of the product. The duty to exercise reasonable care involves every phases of getting the product to the public. For example, liability may be imposed if the product is not manufactured with reasonable care, designed in a way that is safe when used as intended, is not made from safe and non-defective materials or is not assembled with appropriate care to avoid against its negligent manufacturer. The product's container or packaging must be adequate (not in itself dangerous or defective), and contain appropriate warnings and instructions for use. An otherwise non-defective product can be made unsafe by the failure to provide adequate instructions for its safe use.

A breach of warranty cause of action is primarily governed by contract law. A warranty is a promise, claim or representation made about the quality, type, or performance of a product. In general, the law assumes that a seller always provides some kind of warranty concerning the product he sells and that he should be required to meet the obligation created by the warranty.

The law that governs the sale of goods and warranties is uniform from state to state. The law that governs the sale of goods is article 2 of the Uniform Commercial Code (the "**UCC**"). The UCC has been adopted in every state. Under the UCC there are two kinds of warranties, namely, expressed and implied. An express warranty can be created by a representation by the seller, or by showing a sample of a product to the buyer where the buyer reasonably assumed that a second shipment of the same quality as the first would be provided. An implied warranty of merchantability or fitness for a particular use, is presumed to exist unless the buyer clearly and unambiguously disclaims it in writing as part of the sales agreement.

Tortious misrepresentation is similar to warranty in that it seeks to hold a party liable for misrepresenting a material fact about the product which causes either damage or injury. The rules governing tortious misrepresentation are based in common law and vary from jurisdiction to jurisdiction.

Product Safety

The second body of law is product safety law. The law of product safety is regulatory law and is governed primarily by the Consumer Product Safety Commission ("**CPSC**"), an administrative agency of U.S. federal government, established under the Consumer Products Safety Act ("**CPSA**") that regulates certain classes of products sold to the public. Furniture products fall under its jurisdiction. Product safety law seeks to prevent product-caused accidents and diseases before they occur. The main purposes of CPSA are: (i) to protect the public against unreasonable risks of injury associated with consumer products; (ii) to assist consumers in evaluating the comparative safety of consumer products; (iii) to develop uniform safety standards for consumer products and to minimise conflicting state and local regulations; and (iv) to promote research and investigations into the causes and prevention of product related deaths, illness and injuries.

The CPSA includes mandatory rules for manufacturers of certain products with regard to testing and establishing reasonable testing programmes. The CPSA outlines requirements that apply to anyone who sells, offers for sale, manufacturers for sale, distributes in commerce, or imports consumer products regulated by the CPSC. These statutory requirements include reporting responsibilities for manufacturers, importers, distributors and retailers of consumer products. Each entity is required to notify the CPSC if it obtains any information that a product fails to comply with applicable safety standards or banning regulations, contains a defect which could create a substantial product hazard, or creates an unreasonable risk of serious injury or death.

The CPSC requires that manufacturers and importers of most consumer products certify that their products comply with all applicable consumer product safety standards and specify each standard that is applicable to their product. The certification must accompany the product and be furnished to any distributor or retailer to whom the product is delivered. The certification must be based on a test of each product or upon a reasonable testing programme and shall state the name of the manufacturer or private labeler issuing the certificate along with the date and place where the product was manufactured.

The Flammable Fabrics Act, which falls under the purview of the CPSC, and related regulations potentially applies to furniture products with upholstered furniture. Pursuant to, the Consumer Product Safety Improvement Act of 2008 and regulations issued thereunder apply with regards to children's furniture and include safety standards for entrapment hazards in bunk beds, cribs and toddler beds. The Federal Hazardous Substances Act requires precautionary labeling for any household substances that meet the definition of hazardous.

Failure to comply with these laws can result in civil or criminal penalties. Civil penalties available to the CPSC include a penalty up to US$100,000 per occurrence for any person who knowingly violates the CPSA, and a maximum penalty of US$15 million for a related series of violations of the CPSA. Criminal penalties are available against any person who knowingly and willfully violates the CPSA after having received notice of non-compliance from the CPSC. The maximum criminal penalty is five years for corporations and their directors, officers or agents to knowingly and willfully authorise, order or perform any violating act.

*Consumer Product Safety Improvement Act of 2008 ("**CPSIA**")*

The CPSIA regulates the sale and manufacture of consumer products. The CPSIA was promulgated on 14 August 2008 and provided CPSC with significant new regulatory and enforcement tools to protect the public from unreasonable risks of injury or death associated with the use of different types of consumer products. It imposes requirements on manufacturers of apparel, shoes, personal care products, accessories, jewellery, home furnishings, bedding, toys, electronics and video games, books, school supplies, educational materials and science kits. It is targeted mostly towards children's products. CPSIA defines a "children product" as a consumer product designed or intended primarily for children 12 years of age or younger. To make this determination, the following factors will be considered:

(i) a statement by the manufacturer about the intended use of the product, including a label on the product, if such statement is reasonable;

(ii) whether the product is represented in its packaging, display, promotion, or advertising as appropriate for use by children 12 years of age or younger;

(iii) whether the product is commonly recognised by consumers as being intended for use by a child 12 years of age or younger; and

(iv) the Age Determination Guidelines issued by the CPSC staff in September 2002, and any successor to such guidelines.

The CPSC generally requires that children's products:

(i) comply with all applicable children's product safety rule;

(ii) be tested for compliance by a CPSC accepted accredited laboratory using the methods approved by the CPSC, unless subject to an exception;

(iii) have a written Children's Protection Certificate that provides evidence of the product's compliance; and

(iv) have permanent tracking information affixed to the product and its packing where practicable.

The primary aspects of the CPSIA that may be applicable to Huisen's products are 1 requirements concerning lead content of children's furniture. Section 101 of CPSIA contains two distinct requirements. One requirement states that all children's product manufactured must not contain more than 100 parts per million (ppm) of total lead content in accessible parts. The other requirement states that all children's products, and some furniture, for adult and children, must not contain a concentration of lead greater than 0.009 percent (90 ppm) in paint or any similar surface coatings.

(2) Regulations on Formaldehyde Emission

The regulatory area that appears to be of primary concern to the Company is formaldehyde emissions. Formaldehyde is a chemical often found in various products including composite wood products. Formaldehyde emissions are regulated by the United States Environmental Protection Agency under Title VI of the Toxic Substances Control Act ("Title VI of TSCA") and the California Air Resources Board which has adopted its "Composite Wood Products Air Toxic Control Measures" ("ATCM"). The ATCM sets emissions caps for manufactured product and products whose emissions exceed the caps may not be sold in or supplied to California. The CARB standard applies to domestic and imported composite wood products. As discussed below, until March 22, 2019, CARB-compliant products will be considered to be compliant with the TSCA standard. After that date the Company must comply with both the state and federal standards.

Under the ATCM, manufacturers of hardwood plywood ("HWPW"), particleboard ("PB") and medium density fibreboards ("MDF") and other products made of composite must have compliance certified by a third party certifier approved by CARB. It is our understanding that the Company has obtained third party certification for its products. Panels and finished goods (or boxes that contain finished goods) must be labeled as compliant with CARB's Phase 2 formaldehyde emission standards.

CARB will generally hold the importer responsible for bringing any non-compliant goods into California. However, foreign manufacturers can be held responsible for providing non-complying composite wood products.

On 22 May 2017, the United States Environmental Protection Agency ("EPA") adopted its own regulation for formaldehyde emissions from composite wood products. The emission standards are the same as CARB's emission standards. Until 22 March 2019, composite wood products that contain CARB Phase 2 composite wood material produced by a panel producer certified by a CARB-approved third-party certifier that has been recognised by U.S. EPA will be considered TSCA compliant. Until 22 March 2019, CARB approved third party certifiers must apply to EPA for recognition and once certified, may continue to certify until 22 March 2019. There are new requirements after that date. Beginning 1 June 2018, panels (or bundles of panels) and finished goods (or boxes that contain finished goods) may be labeled as complying with TSCA or CARB or both. Until 22 March 2019, products labeled as being compliant with CARB Phase 2 will be considered as TSCA compliant. After that date, all such products must be labeled TSCA Title VI compliant. The regulations describe what information must be contained on the labels. Note that TSCA requires that importers, distributors, fabricators and retailers have a method (e.g. colour coded edge markings) to identify the supplier of each compliant panel or finished good. TSCA also has additional requirements for fabricators beginning in 2024. In addition, beginning 22 March 2019, import certification is required through the U.S. Customs and Border Protection's Automated Commercial Environment for non-domestic composite wood products being imported into the U.S..

In addition, formaldehyde is a listed chemical under the State of California's Safe Drinking Water and Toxic Enforcement Act of 1986 ("Proposition 65") as a chemical that causes cancer. The California Office of Health Hazard Enforcement has established a no significant risk level for exposure of 40 ug/day. Any product that exposes consumers to formaldehyde in excess of that level must include a Proposition 65 warning.

(3) Environmental Protection Agency ("EPA") Regulations

EPA has the authority to regulate under various statutes including the Federal Insecticide, Fungicide, and Rodenticide Act which applies to products which have been treated with materials that have been treated with regulated substances including pesticides. It is our understanding that none of the products exported by the company are treated with any such materials.

Pursuant to TSCA EPA is in the process of evaluating risks associated with Hexabromocyclododecane ("HBCD") which is a category of brominated flame retardants. However, it is our understanding that none of the products exported by the Company are treated with HBCD. Similarly, EPA has been evaluating regulating polybrominated diphenyl ethers ("PBDEs") which are used as flame retardants in textiles and other products. Again, however it is our understanding that none of the products exported by the Company are treated with PBDEs. EPA has also issued a Significant New Use Rule for several benzidine based chemical substances, which are used as dyes in products including paints and textiles. However, it is our understanding that none of the products exported by the Company contain these chemicals.

(4) Customs and Border Protection ("CBP")

The CBP is a federal law enforcement agency charged with regulation and facilitating international trade and enforcing U.S. trade and custom regulation. The CBP has the authority to search outbound and inbound shipments. The CBP is also authorised to seize merchandise imported to U.S. that is marked in violation of customs regulations. While this is not a "product quality" regulation per se, the regulation includes labeling requirements that may be applicable to our products. In addition, as noted above, beginning 22 March 2019, import certification is required through the U.S. Customs and Border Protection's Automated Commercial Environment for non-domestic composite wood products being imported into the U.S..

(5) Anti-dumping

There are a range of trade laws in the U.S. which address the issue of imports which may injure or threaten U.S. industries. Under the anti-dumping laws in U.S., the U.S. International Trade Commission ("USITC") conducts investigations into whether dumping or subsidisation is occurring in products brought into U.S. market. A significant proportion of such investigations in recent years have been in relation to imports from the PRC.

Whether an item is being dumped or not is assessed on the basis on whether it is being sold at less than fair value in the U.S., this typically means an item being sold below the producer's sales price in its home market, or at a price which is lower than the cost of production. Subsidisation occurs when a government provides countervailable financial assistance to benefit production, manufacture and/or export of goods. This process first involves an assessment by the U.S. Department of Commerce ("Department of Commerce") that dumping or subsidisation is occurring, together with a calculation of the estimated margin of dumping or amount of subsidy. The USITC then determines whether or not there is a material injury or threat to the U.S. industry. If such a threat is found, the Department of Commerce may issue an anti-dumping duty and/or countervailing duty order. Once such order is imposed, U.S. Customs and Border Protection is instructed to assess special duties on products subject to the order at the time of their import.

In addition to anti-dumping and subsidisation investigations, there is a specific PRC safeguard investigation which may also be conducted by USITC. Under this safeguard law, the USITC determines whether articles from China are being imported into the U.S. in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of similar or directly competitive products. If the USITC makes an affirmative determination it may propose a remedy and send its report to the President of the U.S. and the U.S. Trade Representative. The President of the U.S. makes the final remedy decision, if any.

In 2005, an U.S. order was issued in an anti-dumping proceeding imposing an anti-dumping duty on imports of specified PRC-origin wooden bedroom furniture and applies to imports into the U.S. of merchandise from the PRC that satisfies the following description: wooden bedroom furniture made substantially of wood products, including both solid wood and also engineered wood products made from wood particles, fibres, or other wooden materials such as plywood, strand board, particleboard, and fibreboard, with or without wood veneers, wood overlays, or laminates, with or without non-wood components or trim such as metal, marble, leather, glass, plastic, or other resins, and whether or not assembled, completed, or finished. In particular, it applies to the following items: (1) wooden beds such as loft beds, bunk beds, and other beds; (2) wooden headboards for beds (whether stand-alone or attached to side rails), wooden footboards for beds, wooden side rails for beds, and wooden canopies for beds; (3) night tables, night stands, dressers, commodes, bureaus, mule chests, gentlemen's chests, bachelor's chests, lingerie chests, wardrobes, vanities, chessers, chifforobes, and wardrobe-type cabinets; (4) dressers with framed glass mirrors that are attached to, incorporated in, sit on, or hang over the dresser; (5) chests-on-chests, highboys, lowboys, chests of drawers, chests, door chests, chiffoniers, hutches, and armoires; desks, computer stands, filing cabinets, book cases, or writing tables that are attached to or incorporated in the subject merchandise; and (6) other bedroom furniture consistent with the above list. Our Directors confirmed that none of our products exported to the U.S. by us falls within the above description.

In light of the nature of our product, and as confirmed by our Directors, our U.S. Legal Advisers are of the opinion that it would appear unlikely that importation of our products would cause or threaten to cause market disruption to the domestic producers of like or directly competitive products. As such, application of these measures would appear to be unlikely.

(6) Import tariffs and quotas

Manufactured goods imported from the PRC are generally subject to U.S. import duties. The PRC is subject to the general rates applicable to most countries with which U.S. does not have a free-trade agreement ("FTA") in place. As at 1 January 2015, U.S. has 14 FTA's in force with 20 countries, but the PRC is not one of them. The rates of duty are set forth in the Harmonized Tariff Schedule of U.S. ("HTS") which identifies applicable duties for the universe of imported goods, organised by class and specific article.

There is no quota system affecting the import of our furniture products from the PRC to U.S..

(7) California's Proposition 65

Pursuant to Proposition 65, the State has identified numerous chemicals known to the state to cause cancer or reproductive toxicity. Unless the person responsible can show that exposure to the product poses no significant risk for cancer or no observable effect for reproductive toxicity, such product must contain a Proposition 65 warning label.

SANCTIONS LAWS AND REGULATIONS

Hogan Lovells, our International Sanctions Legal Advisers, have provided the following summary of the sanctions regimes imposed by their respective jurisdictions. This summary does not intend to set out the laws and regulations relating to the U.S., the European Union, the United Nations and Australian sanctions in their entirety.

U.S.

Treasury regulations

OFAC is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. "Primary" U.S. sanctions apply to "U.S. persons" or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and "secondary" U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organised under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity's domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies' foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens ("green card" holders), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions program and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to "block" (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest — no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) — except pursuant to an authorization or license from OFAC.

OFAC's comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on 12 October 2017). OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

United Nations

The United Nations Security Council (the "UNSC") can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

European Union

Under European Union sanction measures, there is no "blanket" ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

Australia

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the section headed "Appendix VI — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — B. Documents Available for Inspection". As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The articles of association of the Company (the "Articles") were adopted on 2 December 2020. The following is a summary of certain provisions of the Articles.

(a) Directors

(i) Power to allot and issue shares

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and the giving of security for loans to Directors

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) Financial assistance to purchase shares of the Company or its holdings company

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his close associate(s) (as defined in the Articles) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

(aa) any contract or arrangement for the giving to the Director or his close associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;

(bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his close associate(s) has himself/themselves guaranteed or secured in whole or in part;

(cc) any contract or arrangement by a Director or his close associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director or his close associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;

(dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;

(ff) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his close associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, close associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his close associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;

(gg) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his close associate(s) may benefit; and

(hh) any contract, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles.

(vii) Remuneration

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) Qualification shares

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) Indemnity to Directors

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

(c) Alterations of capital

The Company may from time to time by ordinary resolution:

(i) increase its share capital;

(ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;

(iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;

(v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

(vi) change the currency of denomination of its share capital; and

(vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions — majority required

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which notice has been duly given in accordance with paragraph 2(i) below for further details.

(f) Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

At the annual general meeting in each year, the members shall appoint one or more firms of auditors to hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of the term of office and shall by ordinary resolution at that meeting appoint another auditor in its place for the remainder of his term. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

Extraordinary general meetings may be convened on the requisition of 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 having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (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.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

(m) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(o) Corporate representatives

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the forfeited shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

(q) Inspection of register of members

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 622) of the laws of Hong Kong.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words "share" and "shareholder" and "member" therein shall include "stock" and "stockholder".

(x) Other provisions

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days' notice and not less than ten (10) clear business days notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together representing not less than 95 per cent. of the total voting rights at the meeting of all the members.

4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

(i) in paying distributions or dividends to members;

(ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(iii) in redeeming or purchasing its shares as provided in the Companies Law; or

(iv) in writing off

(aa) the preliminary expenses of the company; or (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. Purchases and redemptions may only be effected out of the profits of the company or the share premium account of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Accounting and auditing requirements

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the minutes, accounts or, in the case of any exempted company, the register of members. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands. The register of members shall contain particulars as required by Section 40 of the Companies Law. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. A copy of the register of Directors must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(l) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(m) Winding up

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

(n) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Appendix VI — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — B. Documents Available For Inspection". Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 16 March 2018.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises a Memorandum and the Articles. A summary of the relevant laws and regulations of the Cayman Islands and of our Company's constitution is set out in Appendix IV.

2. Changes in registered capital of our Company

(a) Changes in share capital

(i) As at the date of incorporation of our Company, the authorised share capital was HK$380,000 divided into 3,800,000 Shares having a par value of HK$0.10 each.

(ii) The authorised share capital of our Company was increased from HK$380,000 to HK$1,000,000,000 by the creation of 9,996,200,000 new Shares pursuant to a resolution passed by our Shareholders referred to in paragraph 3 below.

(iii) Immediately following completion of the Global Offering and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and upon the exercise of the Over-Allotment Option, our authorised share capital will be HK$1,000,000,000 divided into 10,000,000,000 Shares having a par value of HK$0.10 each, of which 3,000,000,000 Shares will be issued fully paid or credited as fully paid, and 7,000,000,000 Shares will remain unissued.

(iv) Other than pursuant to the exercise of the Over-Allotment Option and the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein and in the paragraphs headed "3. Resolutions in writing of our Shareholders passed on 2 December 2020" and "4. Group reorganisation" below of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

(b) Founder shares

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of our Shareholders passed on 2 December 2020

By resolutions in writing of our Shareholders passed on 2 December 2020:

(a) we approved and adopted the Articles of Association;

(b) we approved and adopted the amended and restated memorandum of association of our Company with effect upon the increase of the authorised share capital of our Company as set out in the resolution in paragraph (c)(i) below becoming effective;

(c) conditional on (aa) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (bb) the execution and delivery of the Underwriting Agreements on or before the dates as mentioned in this prospectus; and (cc) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:

(i) the authorised share capital of our Company was increased from HK$380,000 to HK$1,000,000,000 by the creation of 9,996,200,000 new Shares;

(ii) the Global Offering and the grant of the Over-allotment Option by our Company were approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option;

(iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Other Information — 16. Share Option Scheme" of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;

(iv) conditional on the share premium account of our Company being credited as a result of the Global Offering or otherwise having sufficient balance, our Directors were authorised to capitalise HK$224,990,000 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 2,249,900,000 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on 2 December 2020 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

(v) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association, the Companies Law or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

(vi) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed or recognised by the SFC and the Stock Exchange for this purpose with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of our share capital in issue immediately following the completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association, the Companies Law or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and

(vii) the extension of the general mandate granted to our Directors as referred to in subparagraph (v) above to allot, issue and deal with Shares to include the nominal amount of Shares which may be purchased or repurchased pursuant to the authority granted to our Directors as referred to in subparagraph (vi) above.

(d) the form and substance of each of the service contracts made between our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our independent non-executive Directors with our Company were approved.

4. Group reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our structure in preparation for the listing of the Shares on the Stock Exchange, details of which are set out in the section headed "History, Reorganisation and Corporate Structure — Reorganisation".

5. Changes in share capital of our subsidiaries

Our subsidiaries are listed in the Accountants' Report set out in Appendix I.

Save for the alterations described in the sections headed "History, Reorganisation and Corporate Structure — Reorganisation" and "History, Reorganisation and Corporate Structure — Major Disposal During the Track Record Period", there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Further information about our PRC establishment

We have interests in the registered capital of the following companies established in the PRC. A summary of the corporate information of each of these companies as at the Latest Practicable Date is set out as follows:

(a) Huisen Holding Investment

Name of the enterprise	Huisen Holding Investment
Date of establishment:	16 July 2018
Economic nature:	Wholly foreign-owned enterprise
Registered owner:	HK Huisen
Registered capital:	US$21 million
Interest attributable to our Company:	100%

Term of operation:	16 July 2018 to 15 July 2048
Scope of business:	Investment and consultation for furniture and ancillary products (prohibited to engage in national finance, insurance and financial credit business such as deposit taking, fund collection, entrusted loans, loans, etc.) (approval from relevant departments must be obtained prior to operation of projects which require approval under the law)

(b) Huiming Wood

Name of the enterprise:	Huiming Wood
Date of establishment:	23 October 2014
Economic nature:	Limited liability company
Registered owner:	Huisen Holding Investment
Registered capital:	RMB129,696,947
Interest attributable to our Company:	100%
Term of operation:	23 October 2014 to 22 October 2044
Scope of business:	Manufacture and sales of panel furniture; manufacture and sales of engineered panels, particleboards, medium density fibreboards, and density boards; wood veneers; and import and export of various commodities and technologies under proprietorship and dealership (approval from relevant authorities must be obtained prior to operation of projects which require approval under the law)

(c) Aigesen

Name of the enterprise:	Aigesen
Date of establishment:	11 February 2015
Economic nature:	Limited liability company
Registered owner:	Huiming Wood (99%) Huisen Furniture (1%)
Registered capital:	RMB380,000,000
Interest attributable to our Company:	100%
Term of operation:	11 February 2015 to 9 February 2045
Scope of business:	Manufacture and sales of engineered panels, particleboards, medium density fibreboards, and density boards; wood veneers; and import and export of various commodities and technologies under proprietorship and dealership (approval from relevant authorities must be obtained prior to operation of projects which require approval under the law)

(d) Huisen Furniture

Name of the enterprise:	Huisen Furniture
Date of establishment:	1 November 2005
Economic nature:	Limited liability company
Registered owner:	Huiming Wood
Registered capital:	RMB363,820,000
Interest attributable to our Company:	100%
Term of operation:	1 November 2005 to 31 October 2035

Scope of business:	Manufacture and sales of furniture (which is operated under the Jiangxi Wood and Bamboo Business (Processing) Permit); sales of furniture and home accessories; and manufacture and sales of smart furniture (approval from relevant authorities must be obtained prior to operation of projects which require approval under the law)

(e) Huisen Mingda

Name of the enterprise:	Huisen Mingda
Date of establishment:	24 April 2014
Economic nature:	Limited liability company
Registered owner:	Huiming Wood (99%) Huisen Furniture (1%)
Registered capital:	RMB200,000,000
Interest attributable to our Company:	100%
Term of operation:	24 April 2014 to long term
Scope of business:	Manufacture and sales of furniture and accessories; sales of interior decor materials; and manufacture, sales and technical development of fitness equipment, sports equipment, bathroom products and accessories (approval from relevant authorities must be obtained prior to operation of projects which require approval under the law)

(f) Weiye Jiankang

Name of the enterprise:	Weiye Jiankang
Date of establishment:	25 January 2007
Economic nature:	Limited liability company
Registered owner:	Huiming Wood (99%) Huisen Furniture (1%)

Registered capital:	RMB22,035,845.95
Interest attributable to our Company:	100%
Term of operation:	25 January 2007 to 24 January 2037
Scope of business:	Research and development, processing, and sales of sports and fitness equipment; manufacture of hardware-based furniture, and processing and sales of various hardware products; and manufacture and sales of glass-based products (approval from relevant authorities must be obtained prior to operation of projects which require approval under the law)

(g) Huisen Home Technology

Name of the enterprise:	Huisen Home Technology
Date of establishment:	11 July 2017
Economic nature:	Limited liability company
Registered owner:	Huisen Furniture
Registered capital:	RMB100,000,000
Interest attributable to our Company:	100%
Term of operation:	11 July 2017 to long term
Scope of business:	Design, manufacture and sales of upholstered and smart home products; and design, manufacture and sales of furniture (approval from relevant authorities must be obtained prior to operation of projects which require approval under the law)

7. Repurchase by our Company of our own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by our Shareholders on 2 December 2020, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which our securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme, such mandate to expire at the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by our Company may be made out of our profits, out of our Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles of Association and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of our Company or from sums standing to the credit of our share premium account or, if authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

(c) Reasons for repurchases

Our Directors believe that it is in the best interest of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and the Shareholders as a whole.

(d) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or our gearing position as compared to the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing position which, in the opinion of our Directors, are from time to time appropriate for us.

(e) General

The exercise in full of the Repurchase Mandate, on the basis of 3,000,000,000 Shares in issue immediately after the Listing, would result in up to 300,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person (as defined in the Listing Rules) of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

8. Registration under Part 16 of the Companies Ordinance

Our Company has established our head office and a principal place of business in Hong Kong for the purpose of registration under Part 16 of the Companies Ordinance at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 27 March 2019. Ms. Chan Sau Ling has been appointed as authorised representatives of our Company for the acceptance of service of process and any notices required to be served on the Company in Hong Kong.

FURTHER DETAILS ABOUT THE BUSINESS OF OUR COMPANY

9. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

(a) the equity transfer agreement dated 19 February 2019 entered into between Shanghai Huarong as transferor and Huisen Holding Investment as transferee in relation to the transfer of the 6.54% equity interest in Huiming Wood at the consideration of RMB440,725,753.42;

(b) the Termination and Transfer Agreement;

(c) the Deed of Indemnity, containing the indemnities more particularly referred to in the paragraph headed "17. Estate duty, tax and other indemnity" of this Appendix;

(d) a cornerstone investor agreement dated 8 December 2020 entered into between our Company, the Sole Global Coordinator and Capital Investment LLC ("**Capital Investment**"), pursuant to which Capital Investment has agreed to subscribe for cash for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) as may be purchased with an aggregate amount of Hong Kong dollars equivalent of US$10,000,000 at the Offer Price;

(e) a cornerstone investor agreement dated 8 December 2020 entered into between our Company, the Sole Global Coordinator and Ganzhou Huashun Industry and Trade Co., Ltd* (贛州市華順工貿有限公司) ("**Ganzhou Huashun**"), pursuant to which Ganzhou Huashun has agreed to subscribe for cash for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) as may be purchased with an aggregate amount of Hong Kong dollars equivalent of RMB40,000,000 at the Offer Price;

(f) a cornerstone investor agreement dated 8 December 2020 entered into between our Company, the Sole Global Coordinator and Ganzhou Development Investment Holdings Group Co., Ltd.* (贛州發展投資控股集團有限責任公司) ("**Ganzhou Development Group**"), pursuant to which Ganzhou Development Group has agreed to subscribe for cash for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) as may be purchased with an aggregate amount of Hong Kong dollars equivalent of RMB60,000,000 at the Offer Price;

(g) a cornerstone investor agreement dated 8 December 2020 entered into between our Company, the Sole Global Coordinator and Lead Capital Fund III, L.P. ("**Lead Capital**"), pursuant to which Lead Capital has agreed to subscribe for cash for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) as may be purchased with an aggregate amount of Hong Kong dollars equivalent of US$7,000,000 at the Offer Price;

(h) a cornerstone investor agreement dated 8 December 2020 entered into between our Company, the Sole Global Coordinator and Longnan Economic and Technological Development Zone Construction and Investment Co., Ltd* (龍南經濟技術開發區建設投資有限公司) ("**Longnan Investment**"), pursuant to which Longnan Investment has agreed to subscribe for cash for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) as may be purchased with an aggregate amount of Hong Kong dollars equivalent of RMB100,000,000 at the Offer Price;

(i) a cornerstone investor agreement dated 8 December 2020 entered into between our Company, the Sole Global Coordinator and Ganzhou City Nankang District Urban Construction Development Group Co., Ltd* (贛州市南康區城市建設發展集團有限公司) ("**Nankang Development Group**"), pursuant to which Nankang Development Group has agreed to subscribe for cash for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) as may be purchased with an aggregate amount of Hong Kong dollars equivalent of RMB194,000,000 at the Offer Price;

(j) a cornerstone investor agreement dated 8 December 2020 entered into between our Company, the Sole Global Coordinator and Stellar Global Fund SPC — Stellar Global Fund 1 SP ("**Stellar Global**"), pursuant to which Stellar Global has agreed to subscribe for cash for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) as may be purchased with an aggregate amount of Hong Kong dollars equivalent of US$3,000,000 at the Offer Price; and

(k) the Hong Kong Underwriting Agreement.

10. Material properties of our Group

As at the Latest Practicable Date, we had the following material properties, details of which are set out below:

	Address and description of location	Main usage	(1) Total site area of land (2) Total gross floor area of buildings *(approximate sq.m.)*	Restrictions on use	(1) Type of ownership (2) Term of land use rights	Details of encumbrances, liens, pledges and mortgages
1.	Daluo District, Longnan County Industrial Park, Ganzhou, Jiangxi Province, PRC* (中國江西省贛州市龍南縣工業園大羅小區) This property is located in an industrial area.	Production facilities and warehouses	(1) 84,667.1 (2) 62,832.1	Industrial use	(1) Self-owned (2) 26 December 2006 to 26 December 2056/ 27 December 2006 to 26 December 2056	Mortgage to a bank
2.	C-05–02-A land parcel, South District, Longling Industrial Park, Nankang, Ganzhou, Jiangxi Province, PRC* (中國江西省贛州市南康區龍嶺工業園南區C-05–02-A地塊) This property is located in an industrial area.	Production facilities and warehouses	(1) 40,413.8 (2) 26,569.8	Industrial use	(1) Self-owned (2) 26 February 2016 to 25 April 2066	Mortgage to a bank
3.	Daluo Industrial Park, Longnan, Ganzhou, Jiangxi Province, PRC* (中國江西省贛州市龍南縣大羅工業園) This property is located in an industrial area.	Production facilities and warehouses	(1) 54,795.8 (2) 29,681.8	Industrial use	(1) Self-owned (2) 21 January 2012 to 20 January 2062	Mortgage to a bank
4.	East side of Huisen Furniture, Daluo Industrial Park, Longling, Ganzhou, Jiangxi Province, PRC* (中國江西省贛州市龍嶺縣大羅工業園匯森家具東側) This property is located in an industrial area.	Warehouses	(1) 8,642.1 (2) No building constructed thereon	Industrial use	(1) Self-owned (2) 10 June 2016 to 9 June 2066	Mortgage to a bank

	Address and description of location	Main usage	(1) Total site area of land (2) Total gross floor area of buildings *(approximate sq.m.)*	Restrictions on use	(1) Type of ownership (2) Term of land use rights	Details of encumbrances, liens, pledges and mortgages
5.	Factory 1 & 2, 2nd District Extended Area, Longnan Industrial Park, Ganzhou, Jiangxi Province, PRC* (中國江西省贛州市龍南縣工業園二小區拓展區廠房1、廠房2) This property is located in an industrial area.	Production facilities and warehouses	(1) 44,000.2 (2) 22,971.5	Industrial use	(1) Self-owned (2) 27 December 2006 to 26 December 2056	Mortgage to a bank
6.	C-01–02-A land parcel, South District, Longling Industrial Park, Nankang, Ganzhou, Jiangxi Province, PRC* (中國江西省贛州市南康區龍嶺工業園南區C-01–02-A地塊) This property is located in an industrial area.	Production facilities and warehouses	(1) 98,358.7 (2) 58,415.5	Industrial use	(1) Self-owned (2) 26 February 2016 to 25 February 2066	Mortgage to a guarantor
7.	Suite E, Kimberly Plaza, 2505 S. Walton, Bentonville, Arkansas, U.S. This property is located in an industrial area.	Showroom	(1) N/A (2) 603.9	Nil	(1) Leased (2) 1 September 2020 to 31 August 2025	Nil
8.	360W 132 Street, Los Angeles CA 90061, U. S. This property is located in an industrial area.	Warehouse and showroom	(1) N/A (2) 102	Nil	(1) Leased (2) 5 September 2020 to 4 September 2022	Nil

Save as disclosed in the section headed "Business — Non-Compliance", none of our material properties as set out above was subject to or involved in any investigations, notices, pending litigation, breaches of law or title defects as at the Latest Practicable Date.

11. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, we had registered the following trademarks which is material in relation to our business:

	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
1.		Huisen Furniture	PRC	20 *(Notes 1)*	11508666	21 February 2014 to 20 February 2024
2.	HUISEN GROUP HUISEN GROUP	the Company	Hong Kong	20, 21, 28 *(Notes 2, 3 and 4)*	304470642	23 March 2018 to 22 March 2028

Notes:

1. The specific products under class 20 in respect of which the trademark was applied for registration are furniture; sofas; beds; mattresses; workbenches; glass steel craftwork; fittings, not of metal, for furniture; fittings, not of metal, for doors; metal furniture; bamboo craftwork.

2. The specific products under class 20 in respect of which the trademark was applied for registration are furniture, mirrors, picture frames; containers, not of metal, for storage or transport.

3. The specific products under class 21 in respect of which the trademark was applied for registration are household or kitchen utensils and containers; cookware and tableware, except forks, knives and spoons; combs and sponges; brushes, except paintbrushes; brush-making materials; articles for cleaning purposes; unworked or semi-worked glass, except building glass; glassware, porcelain and earthenware.

4. The specific products under class 28 in respect of which the trademark was applied for registration are games, toys and playthings; video game apparatus; gymnastic and sporting articles.

(b) Domain name

As at the Latest Practicable Date, we had registered the following domain name which is material in relation to our business:

Domain name	Registration date	Expiry date
www.jxhmgroup.com	5 November 2017	5 November 2021

12. Related party transactions

Save as disclosed in Note 39 to the Accountants' Report, the text of which is set out in Appendix I, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material related party transactions.

FURTHER DETAILS ABOUT OUR DIRECTORS AND SHAREHOLDERS

13. Directors

(a) Disclosure of interests of directors

(i) Mr. Zeng, Ms. Zeng ML and Mr. Su are interested in the Reorganisation.

(ii) Save as disclosed in this prospectus, none of our Directors or their associates engaged in any dealings with us during the two years preceding the date of this prospectus.

(b) Particulars of Directors' service contracts

Executive Directors

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 2 December 2020 which may be terminated by either party by giving not less than three months' written notice to the other. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice to the other.

During the term of the service contract, each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 1 January 2022 at the discretion of our Directors of not more than 10% of the average annual salary for the 12 months immediately prior to such increase).

In addition, during the term of the service contract, each of the executive Directors is also entitled to a discretionary management bonus in such sum as the Board may in its absolute discretion determine provided that the aggregate amount of bonuses payable to all the executive Directors for any financial year of our Company shall not exceed 10% of the audited consolidated net profit attributable to the shareholders of our Company (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of our Directors regarding the amount of management bonus payable to him.

The current basic annual salaries of the executive Directors payable under their service contracts are as follows:

Name	**Annual salary** *(RMB)*
Mr. Zeng	600,000
Ms. Zeng ML	120,000
Mr. Wu Runlu	120,000
Mr. Su	600,000

Also, each of Mr. Zeng and Ms. Zeng ML has entered into an employment contract with Huisen Furniture for a term commencing from 1 January 2015 and will continue thereafter until terminated by either party by giving not less than 30 days written notice. Mr. Wu Runlu has entered into an employment contract with Huisen Furniture for a term of five years commencing from 1 January 2018 which may be terminated by either party by giving not less than one month's written notice to the other party. Mr. Su has entered into an employment contract with Huisen Furniture for a term of three years commencing from 5 January 2019 which may be terminated by either party by giving not less than one month's written notice to the other party.

The current basic monthly salaries of Mr. Zeng, Ms. Zeng ML, Mr. Wu Runlu and Mr. Su under their respective employment contracts with Huisen Furniture are RMB38,000, RMB30,000, RMB35,000 and RMB38,000, respectively.

Independent non-executive Directors

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from 2 December 2020 which may be terminated by either party by giving not less than three months' written notice to the other. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of HK$180,000 per annum with effect from the Listing Date. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) Remuneration of Directors

(i) The aggregate emoluments paid and benefits in kind granted by us to our Directors in respect of the FY2017, FY2018, FY2019 and 6MFY2020 were approximately RMB1.3 million, RMB95.0 million, RMB5.3 million and RMB1.0 million, respectively.

(ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by us to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2020, are expected to be approximately RMB1.8 million.

(iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the FY2017, FY2018, FY2019 and 6MFY2020 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the years ended FY2017, FY2018, FY2019 and 6MFY2020.

(d) Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations following the Global Offering

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

Name of Director	**Name of Group member/ associated corporation**	**Capacity/ Nature of interest**	**Number and class of securities** *(Note 1)*	**Percentage of shareholding**
Mr. Zeng	Our Company	Interest of controlled corporation *(Note 2)*	2,193,750,000 Shares (L)	73.125%
	Pure Cypress	Beneficial owner	1 ordinary Share (L)	100.0%
Mr. Su	Our Company	Interest of controlled corporation *(Note 3)*	56,250,000 Shares (L)	1.875%

Notes:

1. The letter "L" denotes our Directors' long position in the shares of our Company or the relevant associated corporation.

2. These 2,193,750,000 Shares are held by Pure Cypress, the issued shares of which are wholly owned by Mr. Zeng. Under the SFO, Mr. Zeng will be taken to be interested in the Shares held by Pure Cypress.

3. These 56,250,000 Shares are held by Vantage Link, the issued shares of which are wholly owned by Mr. Su. Under the SFO, Mr. Su will be taken to be interested in the Shares held by Vantage Link.

14. Interest discloseable under the SFO and substantial shareholders

So far as is known to our Directors and the chief executive of our Company, immediately following completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), other than our Directors or the chief executive of our Company whose interests are disclosed under the sub-paragraph headed "Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations following the Global Offering" above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholders	Capacity/Nature of interest	Number and class of securities *(Note 1)*	Percentage of shareholding
Pure Cypress *(Note 2)*	Beneficial owner	2,193,750,000 Shares (L)	73.125%
Ms. Zeng RH	Interest of spouse *(Note 3)*	2,193,750,000 Shares (L)	73.125%

Notes:

1. The letter "L" denotes the Shareholder's long position in the Shares.

2. These 2,193,750,000 Shares are held by Pure Cypress, which is wholly owned by Mr. Zeng. Under the SFO, Mr. Zeng will be taken to be interested in the Shares held by Pure Cypress.

3. Ms. Zeng RH is the spouse of Mr. Zeng. Under the SFO, Ms. Zeng RH is taken to be interested in the same number of Shares in which Mr. Zeng is interested.

15. Disclaimers

Save as disclosed in this appendix and the sections headed "History, Reorganisation and Corporate Structure" and "Underwriting":

(a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, our Directors are not aware of any person (not being a Director or the chief executive of our Company) who immediately following the completion of the Global Offering and the Capitalisation Issue will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the issued voting shares of any other member of our Group;

(b) none of our Directors or the chief executive of our Company has any interest or short position in the shares, underlying shares or debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed;

(c) none of our Directors or any of the parties listed in paragraph 23 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group, nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;

(d) none of our Directors or any of the parties listed in paragraph 23 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business; and

(e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph 23 below:

    (i) is interested legally or beneficially in any securities of any member of our Group; or

    (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

OTHER INFORMATION

16. Share Option Scheme

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the then Shareholders on 2 December 2020:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to us. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to our business development so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Who may join

Our Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity ("**Invested Entity**") in which any member of our Group holds an equity interest;

(bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;

(cc) any supplier of goods or services to any member of our Group or any Invested Entity;

(dd) any customer of any member of our Group or any Invested Entity;

(ee) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

(ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity;

(hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Company to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.

(iii) Maximum number of the Shares

(aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.

(bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Company) to be granted under the Share Option Scheme and any other share option scheme of our Company must not in aggregate exceed 10% of the number of Shares in issue on the Listing Date, being 300,000,000 Shares ("**General Scheme Limit**").

(cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Company must not exceed 10% of the number of Shares in issue as at the date of approval of the refreshed limit and, for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Company) previously granted under the Share Option Scheme and any other share option scheme of our Company will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of our Company (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the number of Shares in issue for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting with such grantee and his close associates (or his associates if the grantee is a connected person of our Company) abstaining from voting. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to our Directors, chief executive or substantial shareholders of our Company or their respective associates

(aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who or whose associates is the proposed grantee of the options).

(bb) Where any grant of options to a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK$5 million;

such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to the Shareholders, within such time as may be specified in the Listing Rules. All connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting (with such grantee, his associates and all core connected persons of our Company abstaining from voting in favour).

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless our Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association for the time being in force and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.

Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(x) Restrictions on the time of the offer for the grant of options

No offer for grant of options shall be made after inside information has come to our Company's knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of our results for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no offer for the grant of options may be made.

Our Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination, which will be taken to be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or us or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and us or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of us by reason of the cessation of its relations with us or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which our Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to Shareholders, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

(aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and

(bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustment to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of the share capital of our Company while an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our

Company as fair and reasonable will be made to the number of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option or which remains comprised in an option, provided that (aa) any adjustments shall give a grantee the same proportion of the number of issued shares as that to which he was entitled prior to such alteration; (bb) the issue of Shares or other securities of our Company as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (cc) no alteration may be made to the extent that a Share would be issued at less than its nominal value; and (dd) any adjustment must be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(aa) the expiry of the option period in respect of such option;

(bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and

(cc) the date on which our Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Miscellaneous

(aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.

(cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our Company in general meeting.

(b) Present status of the Share Option Scheme

(i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

(v) Compliance with the Listing Rules

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

17. Estate duty, tax and other indemnity

The Controlling Shareholders (collectively, the "**Indemnifiers**") have entered into the Deed of Indemnity with and in favour of our Company (for ourselves and as trustee for each of our subsidiaries stated therein) to provide indemnities on a joint and several basis in respect of, among other matters:

(a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the Listing Date; and

(b) taxation, together with all reasonable costs (including all legal costs), fines, penalties, costs, charges, expenses or other liabilities which any member of our Group may properly incur resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any transaction or event entered into or occurring on or before the Listing Date whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

(a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 30 June 2020; or

(b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 July 2020 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of any of the Indemnifiers, otherwise than any such act, omission or transaction:

    (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 July 2020; or

    (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 June 2020 or pursuant to any statement of intention made in this prospectus; or

(c) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 30 June 2020 and which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or

(d) to the extent that such taxation claim arises or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the laws, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority in the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such taxation claim arises or is increased by an increase in rates of taxation or taxation claim after the date of the Deed of Indemnity with retrospective effect.

Under the Deed of Indemnity, each of the Indemnifiers has also jointly and severally undertaken to our Company that he/it will indemnify and at all times keep each member of our Group fully indemnified on demand from and against all losses, claims, actions, demands, liabilities, damages, costs, expenses, fines, penalties and charges and of whatever nature suffered or incurred by any member of our Group directly or indirectly arising out of or in connection with the non-compliance or alleged non-compliance by any member of our Group with any applicable laws and regulations on or before the Listing Date.

Under the Deed of Indemnity, each of the Indemnifiers has also jointly and severally undertaken to our Company that he/it will indemnify and at all times keep each of the members of our Group fully indemnified on demand from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.

18. Litigation

No member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any other member of our Group, that would have a material adverse effect on our results of operations or the financial condition of our Company or any other member of our Group.

19. Preliminary expenses

The preliminary expenses of our Company were approximately HK$42,600 and have been paid by our Company.

20. Promoter

(a) Our Company does not have any promoter.

(b) Within the two years preceding the date of this prospectus, no amount or benefit has been paid, allotted or given, or proposed to be paid, allotted or given, to any promoter of our Company in connection with the Global Offering or the related transactions described in this prospectus.

21. Agency fees or commissions received

For details of the agency fees or commissions (including discretionary incentive fees) to be received by the Underwriters, please refer to the section headed "Underwriting — Total Commissions and Expenses for the Global Offering".

22. The Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

The sponsor's fees payable by our Company in respect of the Sole Sponsor's services as sponsor for the Listing is HK$6.0 million.

23. Qualification of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
China Securities (International) Corporate Finance Company Limited	Licenced corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
AllBright Law Offices (Fuzhou)	Qualified PRC lawyers
BDO Limited	Certified Public Accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
BDO China Shu Lun Pan Certified Public Accountants LLP Branch of Fujian	Internal control consultant
Loeb & Loeb LLP	Legal advisers as to U.S. laws
Hogan Lovells	Legal advisers as to International Sanctions laws

None of the experts listed in the table above has any shareholding in any member of our Group or the right (whether legally enforceable or not), to subscribe for or to nominate persons to subscribe for securities in our Company or any other member of our Group.

24. Consent of experts

Each of the experts listed in paragraph 23 above has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or legal memorandum and/or legal opinion and/or opinions and/or advice and/or confirmations and/or summary thereof (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

25. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

26. Taxation of holders of Shares

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which charged on each of the purchaser and the seller is 0.1% of the consideration or, if higher, the value of our Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

27. Miscellaneous

(a) Save as disclosed in this appendix and in the sections headed "History, Reorganisation and Corporate Structure" and "Underwriting":

(i) within two years preceding the date of this prospectus:

(aa) no share or loan capital of our Company or of any other member of our Group has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any other member of our Group; and

(cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in or debentures of our Company or any other member of our Group;

(ii) no share or loan capital of our Company or any other member of our Group is under option, or agreed conditionally or unconditionally to be put under option; and

(b) our Directors confirm that there has not been any interruption in our business which may have or has had a significant effect on our financial position in the 12 months preceding the date of this prospectus.

28. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the section headed "Appendix V — Statutory and General Information — Other Information — 24. Consent of experts"; and

(c) copies of the material contracts referred to in the section headed "Appendix V — Statutory and General Information — Further Details About the Business of Our Company — 9. Summary of material contracts".

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 40/F., Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum of Association and the Articles of Association;

(b) the Accountants' Report from BDO Limited, the text of which is set out in Appendix I;

(c) the audited consolidated financial statements of our Group for each of the FY2017, FY2018, FY2019 and 6MFY2020;

(d) the report from BDO Limited on unaudited pro forma financial information, the text of which is set out in Appendix II;

(e) the Companies Law;

(f) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix IV;

(g) the legal opinions prepared by our PRC Legal Adviser in respect of certain aspects of our Group and the property interests of our Group in the PRC;

(h) the material contracts referred to in the section headed "Appendix V — Statutory and General Information — Further Details About the Business of Our Company — 9. Summary of material contracts";

(i) the legal opinion issued by Loeb & Loeb LLP, being the legal advisers to our Company as to U.S. laws;

(j) the service contracts referred to in the section headed "Appendix V — Statutory and General Information — Further Details About our Directors and Shareholders — 13. Directors — (b) Particulars of Directors' service contracts";

(k) the rules of the Share Option Scheme;

(l) the written consents referred to in the section headed "Appendix V — Statutory and General Information — Other Information — 24. Consent of experts";

(m) the internal control report prepared by BDO China;

(n) the F&S Report, the extracts of which is set out in the section headed "Industry Overview"; and

(o) the legal memorandum issued by Hogan Lovells, our International Sanctions Legal Advisers.

Huisen Household International Group Limited
匯森家居國際集團有限公司