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

HUISEN GROUP

ANNUAL REPORT
2020

CONTENTS

CORPORATE INFORMATION

Executive Directors
Mr. Zeng Ming (Chairman)
Ms. Zeng Minglan
Mr. Wu Runlu
Mr. Su Xinlin

Independent non-executive Directors
Mr. Suen To Wai
Mr. Lau Jing Yeung William
Mr. Gao Jianhua

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

Company Secretary
Ms. Chan Sau Ling

Authorised Representatives
Mr. Zeng Ming
Ms. Chan Sau Ling
Ms. Zeng Minglan (alternate to the authorised representatives)

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

Principal Place of Business in Hong Kong
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

Cayman Islands Principal Share Registrar and Transfer Office
Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

CORPORATE INFORMATION

Hong Kong Branch Share Registrar and Transfer Office
Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Auditor
BDO Limited

Legal Advisers
As to Hong Kong law:
Chiu & Partners
As to Cayman Islands law:
Conyers Dill & Pearman

Principal Bankers
Agricultural Bank of China
Industrial and Commercial Bank of China

Compliance Adviser
Elstone Capital Limited

Company Website
www.jxhmgroup.com

CHAIRMAN'S STATEMENT

Mr. Zeng Ming
Chairman

Dear Shareholders:

On behalf of the board of directors (the "**Board**") of Huisen Household International Group Limited (the "**Company**", together with the subsidiaries, the "**Group**"), I am pleased to present the annual report of the Group for the year ended 31 December 2020 ("**FY2020**").

Time stops for no one, and the seasons keep changing. Since the establishment of the Group in 2005, we have been forging ahead with profound gratitude over the past 15 years. The Group's performance continues to grow, creating more job opportunities to the society and taking on more social responsibilities. The Group has embarked on a new stage of development since the listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 29 December 2020 (the "**Listing**").

At the beginning of 2020, the outbreak of the coronavirus ("**COVID-19**") pandemic swept the world and brought catastrophic challenges to the global economy. The furniture industry was not spared. In such a tough environment, the Group made concerted efforts to overcome the difficulties. Although the Group's revenue fell by approximately 7% in the first half of FY2020, sales rebounded in the second half of the year, with a positive growth of about 5% for FY2020.

CHAIRMAN'S STATEMENT

In the first quarter of 2020, the outbreak of COVID-19 in mainland China led to the discontinuation of most of the industrial and commercial enterprises. We actively responded to the PRC government's call to combat the pandemic by suspending work and production for 22 days (including the holidays) during the Chinese New Year in the first quarter of 2020, which was the main reason for the decline in sales revenue. In the second quarter of 2020, despite the worsening of the pandemic in various overseas countries, developed countries stepped up their quantitative easing policies, granting subsidies to residents and businesses and advocating working from home. This stimulated a new round of enthusiasm among overseas consumers to purchase household products. In the second half of 2020, the Group's sales returned to growth, up by approximately 3% in the third quarter and approximately 26% in the fourth quarter, compared with the same periods of 2019.

In terms of product categories, sales of the three major categories of products all achieved varying degrees of growth. Sales of panel furniture, upholstered furniture and other furniture increased by approximately 3.5%, 16.4% and 29.0% respectively for FY2020 as compared to the year ended 31 December 2019 ("**FY2019**"), with actual sales amount of approximately RMB3,606 million, RMB130 million and RMB159 million respectively for FY2020. Sales of the three major categories of products all hit record highs. We continued to innovate to meet the diverse needs of consumers. The products that were newly launched within the past two years accounted for approximately 80% of sales of the Group in 2020.

In terms of sales regions, the United States of America (the "**United States**" or "**U.S.**") still accounted for the largest proportion of revenue of the Group in FY2020, at approximately 67.1% of total sales, but the sales dropped by 4.7% compared with that of FY2019.

Revenue from Singapore and mainland China decreased by approximately 8.6% and 23.2% respectively, while revenues from Malaysia, Canada and other regions increased by approximately 24.2%, 7.8% and 81.4% respectively. The Group is working hard to expand sales outside the United States, especially in Europe, Southeast Asia and Australia.

The net profit for FY2020 slightly decreased by approximately 4.9% compared with that of FY2019. The main reason is that compared to the exchange gains of over RMB2 million recorded in 2019, the Group recorded exchange losses of over RMB85 million in 2020 due to fluctuations in the U.S. dollar exchange rate. The USD/CNY exchange rate swung dramatically in 2020, during which the exchange rate remained relatively stable and went up slowly in general, while in the second half of the year it began to fall unilaterally, causing some short-term impact. As orders placed by the Group's customers are on a monthly recurring basis, the exchange rate impact was only short-term. The Group takes such measures as increasing and adjusting products' unit prices in U.S. dollars to ensure the stability of its gross profit margin and alleviate the exchange rate impact.

With the gradual rolling out of COVID-19 vaccination across the world and the continuous accumulation of epidemic prevention and control experience, we believe that the impact of COVID-19 on the global economy will soon pass. In 2021, the global economy will resume its growth.

CHAIRMAN'S STATEMENT

In 2021, we will steadily implement the investment projects with raised capital and our own capital, and comprehensively enhance the Group's competitiveness from research and development ("**R&D**"), production, sales to employee training.

On the R&D front, we will seek development through technological innovation. We will actively promote the technological development of formaldehyde-free panel boards. We intend to set up a R&D centre in Dongguan with our own research, design, testing centre and showroom for commercialization for our furniture products, also including the development of functional and smart furniture products, and by cooperation with academic institutions such as Chinese Academy of Sciences Lihua Institute of Technology, Jiangxi University of Science and Technology, and Jiangxi Environmental Engineering Vocational College. The R&D on new materials and smart furniture products serves as a foundation for the Group's further business development, the continuous R&D of new product will be a revenue driver for the Group on a continual basis.

On the production side, the Group will gear up to expand its production capacity to meet the continuously increasing orders from customers, and further consolidate and strengthen the Group's leading position in the furniture industry. In March 2021, with the support of the local government, the land for the new factory for the manufacturing of panel furniture and upholstered furniture was confirmed, and the process for transferring the state-owned land use right by means of bid invitation, auction or listing for sale is now in progress. The Group is currently negotiating with the PRC government on land purchase and construction for the second phase of the factory in one of the group company, Ganzhou Aigesen Wood Panel Co., Limited ("**Aigesen Factory**"). We believe that everything is for the sake of our customers, whether it is the expansion of production capacity, the integration of the industrial chain from raw materials to finished products, or the renewal and purchase of equipment to further improve the quality of the products. All of these will better meet the needs of our customers and, at the same time, bring better results and profits for the Group.

In regard to sales and marketing, we will adhere to the customer-first marketing philosophy. Taking the current domestic and overseas sales system as the cornerstone of development, the Company will further improve the sales channel, with a focus on expanding international retail chain customers to developing sales outside the United States. Meanwhile, the Company will further improve sales and marketing by taking into account the sales conditions in domestic and international markets as well as other potential markets.

In regards to employee training, the Group advocates the values of loyalty, responsibility, gratitude and service. The rapid development of the Group's business cannot be achieved without high-caliber personnel. The Group will further improve the talent introduction system through internal training and external employment, and develop a market-competitive incentive plan, all in an effort to provide strong support for the Group's sustainable development.

Now adorn hill and pass, and make them doubly fair. After 15 years of accumulation, we now stand at a new starting point in 2021, leveraged from our expertise and experience in product design and development and our business relationship with major overseas retail chains and furniture traders, we will steadily carry out the business expansion plan, and provide customers and consumers with a more diversified furniture products that are of good quality, environment-friendly, and cost-effective. We are committed to bringing a healthy and beautiful life to everyone and creating greater value for our investors.

CHAIRMAN'S STATEMENT

On behalf of the Board, I would like to express my heartfelt gratitude to all customers, investors and our staff for your continued support and love to the Group. I believe that in the new journey, we will overcome difficulties and challenges with greater responsibility and commitment, and work hand-in-hand with you to cross the river of time and achieve long-term compound growth of value.

Mr. Zeng Ming
Chairman
Huisen Household International Group Limited

Hong Kong, 25 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2020, the world went through a year like no other. The COVID-19, a once-in-a-century pandemic, ravaged the world, making considerable impacts on the global economy. It also put a daunting challenge on the furniture industry at the beginning of the outbreak. As large-scale restrictive measures have been implemented, the mainland China achieved significant strategic results in combating against COVID-19. In the first quarter of 2020, the pandemic in mainland China was largely brought under control and was one of the first countries to restore manufacturing production capacity and resume normal activities. Many companies resumed normal production and operation, the furniture companies also resumed production and work in an active and orderly manner. In the second quarter of 2020, the outbreak of COVID-19 shifted quickly to European countries and the United States. Under the impact of the pandemic, developed European countries and the United States began to adopt or strengthen quantitative easing monetary policies, granting subsidies to enterprises and residents and encouraging people to work from home. Working from home has become the new norm in the short term. According to the data from Fast Company, one of the world's top three financial media brands, approximately 42% of the U.S. workforce are now working from home, and even in the post-pandemic period, the proportion of people working from home is expected to be three times higher than the pre-pandemic period. Consumers pay more attention to the furniture products used at home and the consumer demand is increasing.

In addition, with the effective control of the pandemic in mainland China, businesses and production gradually resumed. At the same time, furniture manufacturing countries in Southeast Asia were still disturbed by the pandemic. As a result, demand from the supply chain in the global market had shifted to the mainland China, hence the booming development of the furniture industry in the second half of the year.

BUSINESS REVIEW

During FY2020, the Group was successfully listed on the main board of the Stock Exchange in a challenging year. The outbreak of COVID-19 posed unexpected and serious threats to the global economy. However, the pandemic did not have a significant adverse impact on the Group's sustainable operation.

During FY2020, the Group's principal businesses are manufacturing of panel-type furniture, upholstered furniture, outdoor and sport-type furniture. The Group's furniture products are mainly sold to the U.S. and other markets on wholesale basis, including overseas retail chains directly or through our customers which are furniture traders.

In 2020, the Group continued to strengthen its capabilities as an original design manufacturer and launched more original design manufacturing ("**ODM**"). ODM accounted for over 80% of total sales for FY2020, and the sales of ODM maintained growth for three consecutive years.

In terms of production management, the Group promoted lean production management, with a product defective rate of approximately 1.15% in FY2020, down by approximately 0.02% from approximately 1.17% in FY2019.

As the global economy was being hit hard by the pandemic, some of the small and medium-sized furniture traders reduced their orders. The Group carefully assessed the situation and focused strategically on maintaining its major customers. In FY2020, the sales to the top five customers of the Group achieved growth in different degrees, with the growth rates ranging from 3% to 9%.

FINANCIAL REVIEW

Revenue and gross profit margin by product types:

	FY2020			FY2019			
	Revenue (RMB'000)	**(%)**	**Gross Profit Margin (%)**	Revenue (RMB'000)	(%)	Gross Profit Margin (%)	Change Revenue (%)
Panel-type Furniture	**3,606,286**	**92.6**	**23.7**	3,483,930	93.7	23.2	3.5
Upholstered Furniture	**129,879**	**3.3**	**33.4**	111,556	3.0	33.4	16.4
Outdoor and sport-type furniture	**159,383**	**4.1**	**28.0**	123,580	3.3	29.5	29.0
Total	**3,895,548**	**100.0**	**24.2**	3,719,066	100.0	23.8	4.7

In 2020, the Group's overall revenue increased by approximately 4.7%. Revenue of the three main types of products achieved different degrees of growth. Revenue of panel-type furniture, upholstered furniture and outdoor and sport-type furniture for FY2020 continued to increase as compared with FY2019. This was mainly due to the Group's rapid expansion of the sales of upholstered furniture and outdoor, and sport-type furniture to improve the balance of product categories.

Panel-type Furniture

The Group's panel-type furniture products include television cabinets, bookshelves, shelves, desks and coffee tables. Panel-type furniture has always been the core revenue driver of the Group. During FY2020, the revenue of panel-type furniture increased by approximately 3.5%. Gross profit margin of panel-type furniture recorded slight increment due to the higher gross profit margins from some for of our newly launched panel-type furniture products, as well as the increase in average selling prices some of the panel-type furniture products, which partially offset the impact of the depreciation of the U.S. dollar against the Renminbi ("**RMB**").

Upholstered Furniture

Leveraging on the Group's expertise and experience on product design and development as well as its business relationships with major overseas retail chains and furniture traders, the Group further expanded the supply of upholstered furniture to open up new markets. The Group's upholstered furniture mainly includes sofas. During FY2020, the revenue of upholstered furniture increased by approximately 16.4% with a stable gross profit margin of approximately 33.4% for both FY2020 and FY2019. Products sales with relatively high gross profit margins increased among upholstered furniture, which partially offset the impact of the continued depreciation of the U.S. dollar against the RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW — CONTINUED

Outdoor and Sport-Type Furniture

Sports and recreational equipment mainly includes table tennis tables, foosball tables and pool tables. The outdoor furniture mainly includes outdoor tables and stools. The revenue of other furniture amounted to approximately RMB159.38 million for FY2020, representing an increase of approximately 29.0% as compared to approximately RMB123.58 million for FY2019. The gross profit margin of other furniture decreased from approximately 29.5% for FY2019 to approximately 28.0% for FY2020, mainly due to the depreciation of the U.S. dollar against the RMB.

Sales by Geographical Regions

	FY2020		FY2019		Change
	(RMB'000)	**(%)**	(RMB'000)	(%)	(%)
United States	**2,613,090**	**67.1**	2,669,892	71.8	−2.1
The People's Republic of China (the "**PRC**")	**217,494**	**5.6**	283,354	7.6	−23.2
Singapore	**164,096**	**4.2**	179,444	4.8	−8.6
Malaysia	**109,511**	**2.8**	88,184	2.4	24.2
Vietnam	**82,369**	**2.1**	79,612	2.1	3.5
Canada	**73,640**	**1.9**	68,331	1.8	7.8
Other locations	**635,348**	**16.3**	350,249	9.5	81.4
Total	**3,895,548**	**100.0**	3,719,066	100.0	4.7

For FY2020, sales from the United States is still the most significant among all geographical regions. The revenue derived from the sales of furniture product with the United States as the delivery destination decreased by approximately 2.1% in FY2020 compared to FY2019 and the sales ratio to our total revenue decreased from approximately 71.8% in FY2019 to approximately 67.1% in FY2020, representing a decrease of approximately 4.7%. The decrease in sales to United States was mainly due to the strategy adopted by the Group to actively expand to downstream markets other than the United States. Sales revenue from mainland China decreased by approximately 23.2%, which was mainly due to the Group's priority to guarantee furniture sales of overseas customers. Increment of sales to Malaysia, Canada and other regions were more significant. Sales in other regions increased by approximately 81.4% as there were significant growth of sales to Australia, Philippines and France. The Group strived to expand sales outside the United States to reduce reliance on the U.S. market and risk of potential trade frictions between the United States and mainland China.

FINANCIAL REVIEW — CONTINUED

Sales of Top Five Customers

Name of Customer	**FY2020 Revenue (RMB'000)**	**(%)**	FY2019 Revenue (RMB'000)	(%)	Change (%)
Customer A	**957,298**	**24.6**	890,240	23.9	7.5
Customer C	**778,799**	**20.0**	753,037	20.2	3.4
Customer E	**602,234**	**15.5**	555,306	14.9	8.5
Customer D	**524,618**	**13.5**	488,479	13.1	7.4
Customer B	**480,325**	**12.3**	445,178	12.0	7.9
Total	**3,343,274**	**85.9**	3,132,240	84.1	6.7

Stable and long-term business relationship is the foundation for the Group's success. The Group has strategically prioritized orders placed by the major customers. The Group has maintained a long-term relationship with each of top five customers ranging from approximately five to eight years, in particular, the Group has established a direct and stable long-term business relationship with one of the largest retail company in the United States since 2012. As a result, the revenue of the top five customers of the Group accounted for approximately 85.9% of the total revenue in FY2020, representing an increase of approximately 1.8% from approximately 84.1% in FY2019.

Sales of ODM and Original Equipment Manufacturing ("OEM") (Exclude Sales of Particleboards):

	FY2020 (RMB'000)	**(%)**	FY2019 (RMB'000)	(%)	Change (%)
ODM	**3,106,141**	**80.0**	2,752,928	74.7	12.8
OEM	**775,715**	**20.0**	934,514	25.3	−17.0
Total	**3,881,856**	**100.0**	3,687,442	100.0	5.3

The Group always attaches great importance to the improvement of independent R&D capabilities and continues to expand its sales in ODM to increase the dependence of customers and our competitiveness. As for the OEM, we strictly follow the specifications and requirements provided by our customers. The Group's total sales from ODM and OEM increased by approximately 5.3% from approximately RMB3,687.44 million in FY2019 to approximately RMB3,881.86 million in FY2020. During FY2020, sales from ODM increased by approximately 12.8%, compared to FY2019 and accounted for approximately 80.0% of the total revenue. Other revenue from OEM business decreased by approximately 17.0% compared to FY2019 and accounted for approximately 20.0% of the total revenue for FY2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW — CONTINUED

Cost of Sales

Cost of sales mainly comprises cost of materials consumed, overhead costs (such as fuel and power, consumables, depreciation and other miscellaneous costs and expenses), direct labour, and subcontracting fees.

	FY2020 (RMB'000)	FY2019 (RMB'000)	Change (%)
Cost of materials consumed	**2,444,670**	2,349,555	4.0
Overhead costs	**298,156**	286,110	4.2
Direct labour	**191,729**	184,997	3.6
Subcontracting fees	**16,848**	15,092	11.6
Total	**2,951,403**	2,835,754	4.1

Driven by the growth of sales, the Group's cost of sales increased by approximately 4.1% from approximately RMB2,835.75 million in FY2019 to approximately RMB2,951.40 million in FY2020. During FY2020, the subcontracting fees increased by approximately 11.6% due to the increase in urgent bulk orders from customers in the fourth quarter of 2020, which increased the need of subcontracting to ensure timely delivery of the products.

Other Gains and Losses

Other gains and losses include the following:

	FY2020 (RMB'000)	FY2019 (RMB'000)
Exchange losses/(gains), net	**85,308**	(2,847)
Losses on disposal of property, plant and equipment	**4,027**	1,195
Total	**89,335**	(1,652)

The exchange rate of U.S. dollar against RMB fluctuated in FY2020. In the first half of 2020, the exchange rate was relatively stable with gradual appreciation, while it turned to fall sharply unilaterally in the second half of FY2020. As a result, the Group encountered a significant exchange loss during FY2020 as compared to exchange gains in FY2019. We adjusted the selling price of the products based on cost of production and exchange rate but it may incur exchange losses or gains especially when foreign exchange rate fluctuates intensely in short term. During FY2020, due to the increase in number of aging equipment was disposed and new equipment was purchased for replacement of the aging equipment to ensure production efficiency as compared to FY2019, which resulted in the increase in disposal losses.

FINANCIAL REVIEW — CONTINUED

Use of Net Proceeds from the Global Offering

The shares of the Company ("**Shares**") were listed on the Stock Exchange on 29 December 2020 (the "**Listing Date**") by way of global offering (the "**Global Offering**"). The net proceeds from the Global Offering, after deducting the underwriting commission and other expenses payable by the Company, amounted to approximately HK$1,280.69 million. In addition, pursuant to the partial exercise of the over-allotment option on 15 January 2021, the additional net proceeds of approximately HK$121.06 million was received by the Company from the issue and allotment of over-allotment shares after deducting the underwriting commission and other estimated expenses. The following table sets out the breakdown of the use of net proceeds from the Global Offering:

Use of net proceeds as detailed and as defined in the prospectus of the Company dated 14 December 2020 (the "Prospectus")	**Net proceeds** (HK$ million) (approximately)	**Percentage of net proceeds** (%) (approximately)
Establishment of a new manufacturing factory, comprising of two factory compartments, which will focus on the manufacture of panel-type furniture and upholstered furniture (the "**New Factory Compartment**")	636	45.4%
Construction of the second phase of Aigesen Factory	463	33.0%
Upgrading the production line in our existing production facilities by acquiring more advanced and automated machineries and equipment for Huisen Furniture Factory	70	5.0%
Enhancing the product design, research and development capabilities	93	6.6%
General replenishment of working capital and other general corporate purpose	140	10.0%
	1,402	100%

As at 31 December 2020, the Group had not utilised any of the net proceeds from the Global Offering. After the date of this report, in April 2021, the Company had utilised RMB5 million as the deposit for the procurement of land for the New Factory Compartment.

Save as disclosed above, the Company has not utilised any of the net proceeds and does not anticipate any change to its plan and timeline on the use of proceeds as disclosed in the prospectus as at the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW — CONTINUED

Summary of Consolidated Statement of Cash Flow

	FY2020 (RMB'000)	FY2019 (RMB'000)	Change (%)
Operating profits before working capital changes	**792,821**	831,013	(4.6)
Change in working capital	**(54,486)**	(60,106)	(9.4)
Income tax paid	**(87,445)**	(99,101)	(11.8)
Net cash generated from operating activities	**650,890**	671,806	(3.1)
Net cash (used in)/generated from investing activities	**(25,971)**	30,045	(186.4)
Net cash generated from/(used in) financing activities	**938,293**	(523,753)	(279.1)

As of 31 December 2020, the bank balances and cash of the Group were approximately RMB2.65 billion.

The Group's business requires a large amount of capital investment and a relatively high level of working capital to maintain operations and business growth. We rely on cash from operations and external financing to operate and expand our business.

Liquidity and Capital Resources

As of December 31, 2020, the Group had short-term borrowings of approximately RMB323.15 million and long-term borrowings of approximately RMB245.03 million. The Group's major bank borrowings are denominated in RMB and bear interest at fixed and floating rates. The fixed interest rates range from 3.4% to 7.99% per annum (2019: 3.685% to 7.99% per annum).

The Group's main sources of working capital are cash flows from operating activities and bank deposits. As at 31 December 2020, the Group's current ratio was approximately 5.1 (31 December 2019: approximately 2.7). As at 31 December 2020, the Group's gearing ratio was approximately 14.6% (31 December 2019: approximately 27.8%), which is calculated by dividing the total debt by the Equity attributable to the equity owners of the Group.

Inventory Provision

As of 31 December 2020, the Group has not made any provision for impairment of inventories (31 December 2019: Nil). The Group estimates whether to withdraw inventory provision based on the inventory turnover days and sales performance of each product. During FY2020, the Group's inventory sales were smooth with healthy turnover days, and there were no signs which were unsalable or should be impaired.

FINANCIAL REVIEW — CONTINUED

Impairment of Trade and Other Receivables

Trade receivables mainly refer to the outstanding amounts receivable by us from our customers. We reviewed the creditworthiness of our customers after conducting business with them for a period of time, and credit period may be granted to these customers. We generally provide credit period of 90 days at maximum for export sales customers and 30 days at maximum for domestic sales customers. We record trade receivables net of any impairment provision made.

As of 31 December 2020, our trade receivables (net of impairment provision) amounted to approximately RMB1,186.09 million (31 December 2019: approximately RMB1,049.96 million). Such increase in trade receivables were mainly due to the increase in our revenue. As at 31 December 2020, impairment provision for trade receivables of approximately RMB11.98 million (31 December 2019: approximately RMB5.28 million) has been made.

Pledge of Assets

As of 31 December 2020, the Group's certain land use right included in right-of-use assets, buildings and machineries included in property, plant and equipment with an aggregate carrying amount of approximately RMB432.73 million (31 December 2019: approximately RMB440.47 million) were pledged to secure borrowings granted to the Group.

As of 31 December 2020, the Group's land use right included in right-of-use assets and machineries included in property, plant and equipment with an aggregate carrying amount of approximately RMB33.58 million (31 December 2019: approximately RMB11.41 million) were pledged to non related parties for corporate guarantee provided by non related parties on banking facilities granted to the Group.

Capital Commitments and Contingent Liabilities

As at 31 December 2020, the Group had no significant capital commitments or contingent liabilities.

Foreign Exchange Exposure

During FY2020, we had not adopted any financial instrument to hedge our foreign currency exchange risks. Since most of the revenue is settled in U.S. dollars, short term depreciation of the U.S. dollars may reduce the overseas sales income settled in U.S. dollars, which may also influence our financial conditions and profitability.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW — CONTINUED

Human Resources and Training

As of 31 December 2020, the Group had a total 3,161 employees (2019: 3,000 employees), the total staff costs were approximately RMB239.16 million for FY2020 (2019: approximately RMB230.25 million). The remuneration package of the employees is reviewed based on their work performance, experience and current market level.

We organise bond-building events for our staff regularly and continue to provide training for new 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.

Material Acquisitions and Disposals

There was no material acquisitions or disposals of subsidiaries or associated companies of the Company during FY2020.

Significant Investment

There was no significant investment held by the Company during FY2020.

DIVIDENDS

The Board recommends the payment of a final dividend of HK$0.079 (equivalent to approximately RMB0.07) per Share for FY2020, which is subject to the approval of the shareholders of the Company ("**Shareholders**") at the annual general meeting ("**AGM**") to be held on Tuesday, 15 June 2021. The proposed final dividend is expected to be paid on Thursday, 15 July 2021 to all Shareholders whose names appear on the register of members of the Company on Tuesday, 22 June 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 9 June 2021 to Tuesday, 15 June 2021 (both days inclusive) for the purpose of determining the right to attend and vote at the forthcoming AGM. In order to be qualified for attending and voting at the forthcoming AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Tuesday, 8 June 2021.

Conditional on the passing of the resolution approving the declaration of the proposed final dividend at the forthcoming AGM, the register of members of the Company will also be closed from Monday, 21 June 2021 to Tuesday, 22 June 2021 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the FY2020. In order to be qualified for the proposed final dividend (subject to the approval of the Shareholders at the forthcoming AGM), unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. (Hong Kong time) on Friday, 18 June 2021.

BUSINESS OUTLOOK

Looking ahead to 2021, the global economy will continue to be affected by the outbreak of COVID-19, and the massive roll out of vaccines in various countries around the world and the development progress of drugs will play a key role in economic recovery. Challenges are accompanied by opportunities. Despite the uncertainties surrounding the evolution of the pandemic, the mainland China remains the most competitive country in the world in terms of the supply chain when compared to panel-type furniture made in the United States which has long relied on imported panel-type furniture. In addition, as foreign economies begin to recover and working from home becomes the new norm, it is expected that demand for furniture products will gradually increase.

In addition, it is expected that demand for Chinese panel-type furniture in Australia, Europe and other countries will continue to grow as the local manufacturing capacity is unable to meet the local demand for panel-type furniture consumption. The Regional Comprehensive Economic Partnership Agreement ("**RCEP**") signed on 15 November 2020 will bring a new 'peak' of growth for the Chinese furniture export industry. With the signing of the RCEP, the tariffs imposed by Association of Southeast Asian Nations ("**ASEAN**"), Japan, Korea, Singapore, and Australia will be gradually reduced or even 'zero-tariff' so as to establish a unified free trade market.

The uncertainties and unfavorable atmosphere still loom over the global economy. However, with its vertically integrated business model, world-class production capacity, diverse product types, increasingly improved experience and expertise in product design and development, excellent and consistent product quality, and growing marketing channels, the Group is confident to maintain its leading position in the industry and continue to lead the development of the panel-type furniture industry.

CORPORATE GOVERNANCE REPORT

The Board is pleased to report to the Shareholders on the corporate governance of the Company for the year ended 31 December 2020.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the basis of the Company's corporate governance practices.

In the opinion of the Directors, throughout the period from the Listing Date to 31 December 2020, the Company has complied with all the code provisions as set out in the CG Code.

The Company has also put in place certain recommended best practices as set out in the CG Code.

DIRECTORS' AND EMPLOYEES' SECURITIES TRANSACTIONS

The Company devised its own Securities Dealing Code regarding the code of conduct of Directors and employees (who are likely to be in possession of unpublished price-sensitive information of the Company) on dealings in the Company's securities (the "**Company's Code**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company's Code throughout the period from the Listing Date to 31 December 2020.

No incident of non-compliance of the Company's Code by the employees of the Company was noted by the Company during the period from the Listing Date to 31 December 2020.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The composition of the Board as at the date of this report is as follows:

Executive Directors

Mr. Zeng Ming *(Chairman of the Board)*
Ms. Zeng Minglan *(Vice Chairlady of the Board)*
Mr. Wu Runlu *(General Manager of the Group)*
Mr. Su Xinlin *(Chief Financial Officer of the Group)*

Independent Non-Executive Directors

Mr. Suen To Wai *(appointed on 2 December 2020)*
Mr. Lau Jing Yeung William *(appointed on 2 December 2020)*
Mr. Gao Jianhua *(appointed on 2 December 2020)*

The biographical information of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 34 to 37 of this report.

The relationships between the Directors are disclosed in the respective Director's biographies under the section headed "Biographies of Directors and Senior Management" on page 34 of this report.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

For the year ended 31 December 2020, since the Company was only listed on the Stock Exchange on 29 December 2020, the Board only held two Board meetings.

A summary of the attendance records of the Directors at the aforesaid Board meeting is set out below:

Name of Directors	Attendance
Mr. Zeng Ming	2/2
Ms. Zeng Minglan	2/2
Mr. Wu Runlu	2/2
Mr. Su Xinlin	2/2
Mr. Suen To Wai	1/1
Mr. Lau Jing Yeung William	1/1
Mr. Gao Jianhua	1/1

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executives

The position of Chairman is held by Mr. Zeng Ming, whereas the Board as a whole is responsible for and has general powers for the management and the conduct of the business. The Chairman provides overall strategic development and is responsible for the effective functioning and leadership of the Board. The Board manages the Company's business development and daily management and operations generally.

The following table lists the current members of the Board and sets out their respective roles and responsibilities.

Name of Directors	Role and Responsibilities
Mr. Zeng Ming	Overall strategic development and business development of the Group
Ms. Zeng Minglan	Formulation of financial strategies, financial management and internal control of the Group
Mr. Wu Runlu	Formulation and implementation of the strategies and business plans and overall daily operation management of the Group
Mr. Su Xinlin	Overall financial management of the Group
Mr. Suen To Wai	Overseeing the overall affairs of the Group at Board level
Mr. Lau Jing Yeung William	Overseeing the overall affairs of the Group at Board level
Mr. Gao Jianhua	Overseeing the overall affairs of the Group at Board level

Independent Non-Executive Directors

During the period from the Listing Date to 31 December 2020, the Board had complied the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Code Provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas Code Provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Under the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Company's Articles of Association also provides that all Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment. The retiring Directors shall be eligible for re-election.

Each of the executive Directors, Mr. Zeng Ming, Ms. Zeng Minglan, Mr. Wu Runlu and Mr. Su Xinlin, has entered into a service contract with the Company for a term of three years commencing from 2 December 2020, and renewable automatically for successive terms of one year after the expiry of the then current term, which maybe terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors, Mr. Suen To Wai, Mr. Lau Jing Yeung William and Mr. Gao Jianhua, has entered into a letter of appointment with the Company for a term of three years commencing from 2 December 2020, and renewable automatically for successive terms of two years after the expiry of the then current term, which may be terminated by not less than three months' notice in writing served by either party on the other.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board should regularly review the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and overall sales and customer relationship management of the Group are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the FY2020, seminar materials have been prepared by the legal advisers to the Company for all Directors in relation to the on going obligations and directors' duties and responsibilities of publicly listed company under certain applicable Hong Kong laws and regulations, including the Listing Rules. In addition, relevant reading materials including compliance manual, legal and regulatory updates and seminar handouts have been provided to the Directors for their reference and studying.

The training records of the Directors for the FY2020 have been provided to the Company and are summarised as follows:

Directors	Reading materials regarding regulatory update and corporate governance matters	Attending seminars/ in-house workshops relevant to the Company's business, Listing Rules compliance and risk management
Executive Directors		
Mr. Zeng Ming	✓	✓
Ms. Zeng Minglan	✓	✓
Mr. Wu Runlu	✓	✓
Mr. Su Xinlin	✓	✓
Independent Non-Executive Directors		
Mr. Suen To Wai	✓	✓
Mr. Lau Jing Yeung William	✓	✓
Mr. Gao Jianhua	✓	✓

BOARD COMMITTEES

The Board has established five committees, namely, the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**"), the corporate governance committee (the "**Corporate Governance Committee**") and the risk management committee (the "**Risk Management Committee**"), for overseeing particular aspects of the Company's affairs. The Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee are established with specific written terms of reference which deal clearly with their authority and duties, whereas the Risk Management Committee is established with clearly defined roles and responsibilities. The relevant terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this report.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Suen To Wai, Mr. Lau Jing Yeung William and Mr. Gao Jianhua. Mr. Suen To Wai is the chairman of the Audit Committee. At least one of the committee members possesses appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules and none of the committee members is a former partner of or has any financial interest in the Company's existing external auditors within two years before his/her appointment as a member of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment and renewal of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

As the Company was listed on the Stock Exchange on 29 December 2020, no Audit Committee meeting was held during the FY2020.

Remuneration Committee

The Remuneration Committee consists of three members, namely Mr. Suen To Wai and Mr. Lau Jing Yeung William, the independent non-executive Directors and Mr. Su Xinlin, the executive Director. Mr. Suen To Wai is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee had one meeting during the year ended 31 December 2020 to review and make recommendation to the Board on the terms of service contracts and letters of appointment of the executive Directors and independent non-executive Directors.

The attendance records of the members of the Remuneration Committee during the FY2020 are as follows:

Name of Members of the Remuneration Committee	Attendance
Mr. Su Xinlin	1/1
Mr. Suen To Wai	1/1
Mr. Lau Jing Yeung William	1/1

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Lau Jing Yeung William and Mr. Suen To Wai, independent non-executive Directors and Mr. Zeng Ming, executive Director. Mr. Lau Jing Yeung William is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experiences) of the Board, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's board diversity policy (the "**Board Diversity Policy**"). The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Company's director nomination policy (the "**Director Nomination Policy**") that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

As the Company was listed on the Stock Exchange on 29 December 2020, no Nomination Committee meeting was held during the FY2020.

Corporate Governance Committee

The Corporate Governance Committee consists of three members, namely, Mr. Suen To Wai and Mr. Lau Jing Yeung William, independent non-executive Directors and Mr. Su Xinglin, executive Director. Mr. Suen To Wai is the chairman of the Corporate Governance Committee.

The Corporate Governance Committee was established by the Board for performing the functions set out in the Code Provision D.3.1 of the CG Code, including to introduce and propose relevant principles concerning corporate governance and to review and determine the corporate governance policy of our Group.

As the Company was listed on the Stock Exchange on 29 December 2020, no Corporate Governance Committee meeting was held during the FY2020.

Risk Management Committee

The Risk Management Committee consists of three members, namely Mr. Zeng Ming and Ms. Zeng Minglan, executive Directors and Mr. Gao Jianhua, independent non-executive Director. Mr. Zeng Ming is the chairman of the Risk Management Committee.

The primary duties of the Risk Management Committee are to assist the Board in monitoring the exposure of the Group to sanctions risks and the implementation of the related internal control procedures.

As the Company was listed on the Stock Exchange on 29 December 2020, no Risk Management Committee meeting was held during the FY2020.

Board Diversity Policy

The Company has adopted the Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the 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 the Board and the business needs of our Company from time to time.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

CORPORATE GOVERNANCE REPORT

The Company values gender diversity and will continue to take steps to promote gender diversity at all levels of the Company, in particular at the Board level. In addition, the Company is committed to providing career development and training opportunities for the staff who the Company considers have the suitable experience, skills and knowledge with an aim to promote them to senior management members or Directors. The Company will also ensure that there is gender diversity when recruiting the staff at mid to senior level so as to develop a pipeline of potential successors to the Board. The Nomination Committee is responsible for ensuring the diversity of the Board.

The Nomination Committee will discuss and agree annually measurable objectives for implementing diversity on the Board and recommend them to the Board for adoption.

At present, the Nomination Committee considered that the Board is sufficiently diverse.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

As at the date of this report, the Board's composition can be summarised by the following main diversity perspectives:

	Number of Directors
Gender	
Female	1
Male	6
Nationality	
Australian	2
Chinese	3
Singaporean	1
St. Kitts and Nevis	1
Age	
31–40	1
41–50	4
51–60	2
Length of Service	
1–3 years	7

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee.

The Company has adopted the Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Ability to devote sufficient time and attention to the affairs of the Company;
- Contribution to the diversity of the Board;
- Requirements of independent non-executive directors on the Board and independence of the proposed independent non-executive directors in accordance with the Listing Rules; and
- Effectiveness to carry out by the Board of the responsibilities which, in particular, are set out as follows:
  - brining an independent judgment and make constructive recommendation on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;
  - taking the lead where potential conflicts of interests arise;
  - serving on the Audit Committee, the Remuneration Committee, the Nomination Committee (in the case of candidate for Non-Executive Director) and/or other relevant Board Committees, if invited;
  - devoting sufficient time to the Board and/or any Committee(s) on which he or she serves so as to allow them to benefit from his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the Board;
  - scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;
  - ensuring the Committees on which he or she serves to perform their powers and functions conferred on them by the Board; and
  - conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the period from the Listing Date to the date of this report, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy regularly to ensure its effectiveness. The Nomination Committee will also conduct regular review on the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs, to comply with all applicable laws and regulations from time to time and maintain good corporate governance practice.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee and Risk Management Committee assist the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions.

All divisions/departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each division/department.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The Company has established a risk assessment and management team to work with each department each year to identify various types of risks that could adversely affect the Group's objectives, and to assist the management in evaluating and making decisions to eliminate crises and transfer risks, and subsequently to establish risk mitigation plans and risk owners for risks considered significant.

The Company has an internal audit department (the "**Internal Audit Department**") in place for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee and the Risk Management Committee.

The management has confirmed to the Board and the Audit Committee and the Risk Management Committee on the effectiveness of the risk management and internal control systems during the period from the Listing Date to 31 December 2020.

The Internal Audit Department, which is the risk audit monitoring department, informs management of the risks identified in the course of its internal audit, including strategic environment risks, process risks (business operations risks, financial risks, authorisation risks, information and technology risks, and integration risks) and strategic decision information risks.

The risk assessment and management team works closely with the Internal Audit Department to review, monitor and manage risks. It conducts independent reviews of the adequacy and effectiveness of the Group's risk management and internal control systems. It also assists the management in reporting to the Risk Management Committee, Audit Committee and the Board.

The Board, as supported by the Audit Committee and the Risk Management Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2020, and considered that such systems are effective and adequate.

The Company has adopted an Anti-Bribery and Whistleblowing Policy to facilitate employees of the Group to raise, in confidence, concerns about possible improprieties in the practices and procedures, including financial reporting, internal control and other matters.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

Each of the controlling Shareholders, namely Pure Cypress Limited and Mr. Zeng Ming, has entered into a deed of non-competition in favour of the Company on 2 December 2020 (the "**Deed**"), details of which have been set out in the Prospectus.

The Company has received written declarations from each controlling Shareholder in respect of his/its and/or his/its close associates' compliance with the terms of the Deed during the period from the Listing Date to the date of this report. The independent non-executive Directors have also reviewed the compliance with the Deed and enforcement of the terms of the Deed by the controlling Shareholders and confirmed that the controlling Shareholders have not been in breach of the Deed during the period from the Listing Date to 31 December 2020.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the FY2020.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 49 to 53.

There is no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of external auditor.

AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditor in respect of audit services for the FY2020 amounted to RMB1,344,000.

COMPANY SECRETARY

Ms. Chan Sau Ling ("**Ms. Chan**") from Tricor Services Limited, being an external service provider, is acting as the company secretary of the Company.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Mr. Su Xinlin, the executive Director and chief financial officer of the Group, has been designated as the primary contact person at the Company which would work and communicate with Ms. Chan on the Company's corporate governance and secretarial and administrative matters.

For the FY2020, Ms. Chan has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels.

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to Article 64 of the Articles of Association of the Company, extraordinary general meetings can be convened on the requisition of one or more Shareholders holding, as 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 company secretary of the Company 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 two 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.

Putting Forward Proposals at General Meetings

Any Shareholder who wishes to put forward proposals at a general meeting of the Company shall submit such proposals to the Board in writing for the Board's consideration with his/her/its detailed contact information to the Company's headquarters in China, with a copy of the proposal served to the Company's Hong Kong branch share registrar not less than 15 business days prior to the date of the general meeting. The contact details are set out in the subsections below.

Putting Forward Enquiries to the Board

For enquiries about shareholdings, share transfer, registration and payment of dividend, Shareholders shall direct their enquiries to the Company's Hong Kong branch share registrar and the contact details are set out as follows:

Tricor Investor Services Limited

Address:	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Email:	is-enquiries@hk.tricorglobal.com
Telephone:	(852) 2980 1333
Fax:	(852) 2810 8185

CORPORATE GOVERNANCE REPORT

Contact Details

Shareholders may send their proposals of convening general meeting and any other enquiries to the Company as follows:

Address:	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (For the attention of the Board of Directors/Company Secretary)
Email:	investorenquiry@jxhuisen.com
Telephone:	(852) 2980 1888

Shareholders are encouraged to make enquires via the online enquiry form available on the Company's website at www.jxhmgroup.com.

For the avoidance of doubt, Shareholder(s) must deposit and send the duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

The Company will normally not deal with verbal or anonymous enquiries.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company is endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) will be available to meet Shareholders and answer their enquiries.

To promote effective communication, the Company maintains a website at www.jxhmgroup.com where up-to-date information and updates on the Company's financial information, corporate governance practices and other information are posted.

The Company has adopted an amended and restated Memorandum and Articles of Association by a special resolution passed on 2 December 2020 and with effect from the Listing Date and 2 December 2020 respectively. An up to date version of the Company's Memorandum and Articles of Association is also available on the Company's website and the Stock Exchange's website. Save as disclosed above, there was no change in the constitutional documents of the Company during the period from the Listing Date to 31 December 2020.

Policies relating to Shareholders

The Company has in place a shareholders' communication policy (the "**Shareholders' Communication Policy**") to ensure that Shareholders' views and concerns are appropriately addressed. The Shareholders' Communication Policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a dividend policy (the "**Dividend Policy**") on payment of dividends. The Company does not have any fixed dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and the external factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval. The Company currently intends to recommend dividend no less than 40% of the net profit for the year attributable to the Shareholders for the FY2020.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. ZENG Ming (曾明), aged 50, is the founder of the Group, an executive Director and the chairman of the Board who is responsible for the overall strategic development and business development of the 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 the Group and the brother of Ms. Zeng Minglan.

Mr. Zeng has over 18 years of experience in the furniture industry. He worked at Ganzhou Weibao Furniture Co., Limited* (贛州維寶家具有限公司) (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* (贛州佳業家具有限公司) in August 2001. 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)*.

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's interest in the shares of the Company as at 31 December 2020 is disclosed under the paragraph headed "Directors' Report — Directors' and Chief Executives' Interests and Short Positions in Shares" in this annual report.

Ms. ZENG Minglan (曾明蘭), aged 46, is an executive Director and the vice chairlady of the Board who is responsible for the formulation of financial strategies, financial management and internal control of the Group. She was appointed as an executive Director on 10 September 2018. Ms. Zeng is also a director of certain subsidiaries of our Group and the sister of Mr. Zeng.

Ms. Zeng has over 21 years of experience in financial management and accounting. Ms. Zeng joined the Group in November 2005. Ms. Zeng worked at Ganzhou Jiaye Furniture Co., Limited* (贛州佳業家具有限公司) 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 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 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, is an executive Director and the general manager of the Group who is responsible for the formulation and implementation of the strategies and business plans and overall daily operation management of the Group. He was appointed as an executive Director on 10 September 2018.

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 and 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.

* For identification purpose only

Mr. Wu has over 18 years of experience in the manufacturing industry. Mr. Wu joined the Group in January 2018. 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)*.

Mr. SU Xinlin (蘇鑫林), aged 48, is an executive Director and the chief financial officer of our Group who is responsible for the overall financial management of the 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 the Group in January 2016. Before joining the 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* (廈門國際信託有限公司) from August 1993 to March 2005.

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 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.

Mr. Su became a certified public accountant of Australia in January 2011. He 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's interest in the shares of the Company as at 31 December 2020 is disclosed under the paragraph headed "Directors' Report — Directors' and Chief Executives' Interests and Short Positions in Shares" in this report.

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 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.

* For identification purpose only

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON_EXECUTIVE DIRECTORS

Mr. SUEN To Wai (孫多偉), aged 47, 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, 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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, 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.

* For identification purpose only

REPORT OF THE DIRECTORS

The Directors are pleased to present the report of the Directors and the audited consolidated financial statements of the Group for FY2020.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares were listed on the Stock Exchange by way of the Global Offering on 29 December 2020 and the net proceeds from the Global Offering, after deduction of the underwriting commission and other expenses payable by the Company, amounted to approximately HK$1,280.69 million. In addition, pursuant to the partial exercise of the over-allotment option on 15 January 2021, the Company received additional net proceeds of approximately HK$121.06 million from the issue and allotment of the over-allotment shares after deduction of underwriting commissions and other estimated expenses. The following table sets out the breakdown of the use of the net proceeds from the Global Offering.

Use of net proceeds as detailed and defined in the Prospectus	**Net proceeds** (HK$ million) (approximately)	**Percentage of net proceeds** (%) (approximately)
Establishment of the New Factory Compartment	636	45.4%
Construction of the second phase of the Aigesen Factory	463	33.0%
Upgrading the production line in the existing production facilities by acquiring more advanced and automated machineries and equipment for the Huisen Furniture Factory	70	5.0%
Enhancing the product design, research and development capabilities	93	6.6%
General replenishment of working capital and other general corporate purpose	140	10.0%
	1,402	100%

As at 31 December 2020, the Group had not utilised any of the net proceeds from the Global Offering. After the date of this report, in April 2021, the Company had utilised RMB5 million as the deposit for the procurement of land for the New Factory Compartment.

Save as disclosed above, as at the date of this report, the Group has not utilised any of the net proceeds and does not anticipate any change in the plan and timeline for the use of proceeds as disclosed in the Prospectus.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and details of the business of its major subsidiaries are set out in Note 35 to the consolidated financial statements.

REPORT OF THE DIRECTORS

RESULTS AND FINAL DIVIDEND

The results of the Group for FY2020 are set out in the consolidated income statement on page 54 of this report.

The Company was listed on the Main Board of the Stock Exchange on 29 December 2020. The Board recommends the payment of a final dividend of HK$0.079 (equivalent to approximately RMB0.07 cent) per Share for FY2020 to Shareholders whose names appear on the register of members of the Company on Tuesday, 22 June 2021, for a total of approximately RMB216 million.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 9 June 2021 to Tuesday, 15 June 2021 (both days inclusive) for the purpose of determining the right to attend and vote at the forthcoming AGM. In order to be qualified for attending and voting at the forthcoming AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Tuesday, 8 June 2021.

Conditional on the passing of the resolution approving the declaration of the proposed final dividend at the forthcoming AGM, the register of members of the Company will also be closed from Monday, 21 June 2021 to Tuesday, 22 June 2021 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the FY2020. In order to be qualified for the proposed final dividend (subject to the approval of the Shareholders at the forthcoming AGM), unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. (Hong Kong time) on Friday, 18 June 2021.

BUSINESS REVIEW

As required by Schedule 5 of the Hong Kong Companies Ordinance (Chapter 622), the Group provides a business review including (i) a fair review of the business of the Group; (ii) a description of the principal risks and uncertainties facing the Company; (iii) particulars of important events affecting the Company that have occurred since the end of FY2020; and (iv) a discussion on the Group's future business development as well as an analysis of the Group's performance during FY2020 using financial key performance indicators and are detailed in the section headed "Chairman's Statement" and "Management Discussion and Analysis" of this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental Protection

Environmental conservation remains a key focus for the Group. The conscientious use of resources and adoption of best practices across the Group's businesses underlie its commitment to safeguarding the environment. The Group encourages environmental protection and complies with environmental legislation and promotes awareness towards environmental protection to the employees.

REPORT OF THE DIRECTORS

The Group puts great emphasis on environmental protection and sustainable development. Through the establishment of an ever improving management system, enhancement on procedure monitoring, energy conservation and environment protection were strongly promoted, leading to the remarkable achievement of environmental management. Several measures have been implemented by the Group in order to promote environmental protection.

A stand-alone Environmental, Social and Governance Report which complies with Appendix 27, Environmental, Social and Governance Reporting Guide, to the Listing Rules will be published as close as possible to, and in any event no later than three months after, the publication of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is principally engaged in the manufacturing of furniture products through its factories in mainland China. The products are mainly exported to the United States. The business operation of the Group is subject to the laws and regulations of mainland China, the United States and Hong Kong. Save as disclosed under the Prospectus, for FY2020 and up to the date of this report, the business operation of the Group has complied with all relevant laws and regulations in the aforesaid jurisdictions.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group maintains good relationships with its employees, customers and suppliers.

Employees are the valuable assets of the Group. The Group not only offers competitive remuneration packages to its employees, but also strives to provide them with the utmost humanistic care, giving them a sense of belonging and pride. The cultural values of loyalty, responsibility, gratitude and service of the Group have always been fully demonstrated.

Harmonious relationships with customers are maintained. The Group insists on the business philosophy of customer first and adheres to the bottom-line principle that product quality is the vitality of the enterprise. The after-sales service system is being further improved to continuously enhance customer satisfaction.

The Group maintains good cooperative relationships with its suppliers. The Group has been working with its suppliers, especially its major suppliers, for many years. Although the Group has built up a long term relationship with its suppliers, the Group has never lower the quality standards of raw materials, and the Group treats all suppliers equally to ensure the safety of its products from the source.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 32 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2020 and 2019, the Company's reserves available for distribution to Shareholders are as follows:

	2020 (RMB'000)	2019 (RMB'000)
Share premium	**777,539**	—
Statutory reserves	**296,106**	241,189
Retained earnings	**2,493,446**	2,007,680
	3,567,091	2,248,869

The share premium and statutory reserves are distributable to the Shareholders in accordance with the Companies Law of the Cayman Islands, provided that the Company is solvent in the ordinary course of business when its debts are due and payable immediately after the date on which any dividend is proposed to be distributed.

Details of the movements in the reserves of the Group and the Company during FY2020 are set out in note 33 to the consolidated financial statements.

BORROWINGS

Details of the Group's borrowings from financial institutions as at 31 December 2020 are set out in Note 29 to the consolidated financial statements.

DIRECTORS

The Directors during FY2020 and up to the date of this report are as follows:

Executive Directors:

Mr. Zeng Ming *(Chairman of the Board)*
Ms. Zeng Minglan *(Vice Chairlady of the Board)*
Mr. Wu Runlu
Mr. Su Xinlin

Independent Non-executive Directors:

Mr. Suen To Wai *(appointed on 2 December 2020)*
Mr. Lau Jing Yeung William *(appointed on 2 December 2020)*
Mr. Gao Jianhua *(appointed on 2 December 2020)*

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACT AND APPOINTMENT LETTER

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from 2 December 2020 (subject to termination in certain circumstances as stipulated in the relevant director service agreement).

Each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing from 2 December 2020 (subject to termination in certain circumstances as stipulated in the relevant letter of appointment).

In accordance the Articles of Association of the Company, Mr. Zeng Ming, Ms. Zeng Minglan and Mr. Wu Runlu will retire at the forthcoming AGM and all of them, being eligible, offer themselves for re-election at the forthcoming AGM.

None of the Directors to be re-elected at the forthcoming AGM have entered into any service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors to be independent.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

At no time during the period from the Listing Date to 31 December 2020 was there a transaction, arrangement or contract of significance entered into by the Company, any of its subsidiaries, its parent company or a subsidiary of its parent company in which the Directors or an entity related to the Directors or a controlling shareholder of the Company had a material interest, whether directly or indirectly.

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during FY2020 or subsisted during FY2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The compliance of the controlling Shareholders of the Deed given by the controlling Shareholders in favour of the Company on 2 December 2020 is set out in the section headed "Corporate Governance Report — Non-Competition Undertaking by the controlling Shareholders".

During FY2020 and to the date of this report, none of the Directors or the controlling Shareholders or their respective close associates have an interest in a business that competes or may compete with the principle business of the Group, either directly or indirectly.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2020, the interests of the Directors or chief executives in the Shares and underlying shares of the Company and its associated corporations as recorded in the register kept under section 352 of the Securities and Futures Ordinance ("**SFO**"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name of Director	Capacity	Number and class of securities *(Note 1)*	Percentage of the issued share capital of the Company
Mr. Zeng Ming ("**Mr. Zeng**")	Interest of controlled corporation	2,193,750,000 (L) *(Note 2)*	73.125%
Mr. Su Xinlin	Interest of controlled corporation	56,250,000 (L) *(Note 3)*	1.875%

Notes:

1. The letter "L" denotes the Directors' long position in the Shares of the Company or the relevant associated corporation.

2. These 2,193,750,000 Shares are held by Pure Cypress Limited, 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 Limited.

3. These 56,250,000 Shares are held by Vantage Link Investments Limited, the issued shares of which are wholly owned by Mr. Su Xinlin. Under the SFO, Mr. Su Xinlin will be taken to be interested in the Shares held by Vantage Link Investments Limited.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executives of the Company had any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2020, the interests of substantial Shareholders and other persons (other than the Directors or chief executives of the Company) in the Shares and underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Number and class of securities *(Note 1)*	Percentage of the issued share capital of the Company
Pure Cypress Limited	Beneficial owner	2,193,750,000 (L) *(Note 2)*	73.125%
Mr. Zeng	Interest of controlled corporation	2,193,750,000 (L) *(Note 2)*	73.125%
Ms. Zeng Ronghua ("**Ms. Zeng RH**")	Interest of spouse	2,193,750,000 (L) *(Note 3)*	73.125%

Notes:

1. The letter "L" denotes the Shareholders' long position in the Shares.

2. These 2,193,750,000 Shares are held by Pure Cypress Limited, 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 Limited.

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.

Save as disclosed above, as at 31 December 2020, other than the Directors and the chief executives of the Company whose interests are set out in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During FY2020, the Group's sales to the five largest customers and the largest customer accounted for approximately 85.82% and 24.57% respectively, of the Group's annual sales revenue, and the Group's purchases from the five largest suppliers and the largest supplier accounted for approximately 19.40% and 5.35% respectively, of the Group's total annual purchases.

During FY2020, none of the Directors and their close associates, or any Shareholders (known to the Directors own more than 5% of the issued Shares), had any interest in any of the Group's five largest customers or five largest suppliers for FY2020.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 2 December 2020 ("**Share Option Scheme**"). The purpose of the Share Option Scheme is to provide incentives or rewards to selected participants who contribute to the success of the Group's operations. All directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological support to the Group, shareholders of any member of the Group, advisers or consultants of the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group are eligible to participate in the Share Option Scheme. The Share Option Scheme will remain in force for a period of 10 years commencing on its adoption date.

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 adopted by the Company must not in aggregate exceed 10% of the Shares in issue on the Listing Date (the "**General Scheme Limit**"). As at the date of this report, the total number of Shares available for issue under the Share Option Scheme was 300,000,000 Shares, representing 9.77% of the issued share capital of the Company.

The Company may renew the General Scheme Limit with Shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the Shareholders' approval. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time. Unless approved by the shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an 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 the Directors to each grantee, which period may commence on a day after the date upon which 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 the Directors and stated in the offer of 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.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of: (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant.

No share options have been granted, exercised or cancelled by the Company under the Share Option Scheme since its adoption and up to the date of this report.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company, or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

TAX RELIEF

The Company is not aware of any tax relief or exemption to the Shareholders by reason of their holding of the Shares during FY2020.

EQUITY-LINKED AGREEMENTS

During FY2020 and up to the date of this report, no equity-linked agreements have been entered into by the Company apart from the Share Option Scheme.

PURCHASE, SALES OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries have purchased, redeemed or sold any of the listed securities of the Company from the Listing Date and up to the date of this report.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group are set out in note 36 to the consolidated financial statements. None of the related party transactions disclosed in note 36 in the notes to the consolidated financial statements constitute connected transaction or continuing connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company for FY2020. Accordingly, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

The Board has adopted the CG Code as set out in Appendix 14 of the Listing Rules. The Board has reviewed the corporate governance practices of the Company and is satisfied that the Company has complied with the code provisions set out in the CG Code from the Listing Date to the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its Code of Conduct regarding securities transactions by directors, the terms of which are no less than the required standard set out in the Model Code as set out in Appendix 10 of the Listing Rules. After the specific enquiry made by the Company, all Directors of the Company have confirmed that they have complied with the required standard set out in the Model Code regarding the code of conduct for securities transactions by directors since the Listing Date and up to the date of this Report.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association of the Company, every Director shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of his/her duty or supposed duty in his/her respective offices or trusts.

The Company has arranged for appropriate insurance coverage for the Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. As at the date of this report, the permitted indemnity provision is currently in force for the benefit of the Directors and officers of the Company throughout the period from the Listing Date to the date of this report.

DIVIDEND

The Board recommends the payment of a final dividend of HK$0.079 per Share (equivalent to approximately RMB0.07) for a total amount of approximately RMB216 million for the FY2020, subject to the approval of the Shareholders at the AGM to be held on Tuesday, 15 June 2021. The proposed final dividend is expected to be distributed on Thursday, 15 July 2021 to all Shareholders whose names appear on the register of members of the Company on Tuesday, 22 June 2021.

EMOLUMENT POLICY

The emolument of the Directors and senior management of the Group are determined by the Remuneration Committee with reference to the Group's operating results, individual performance and market comparables.

RETIREMENT BENEFIT SCHEME

The Group participates in a state-managed retirement benefit plan operated by the PRC government. Details of the retirement benefit scheme are set out in Note 13 to the consolidated financial statements.

CHARITABLE DONATIONS

During FY2020, the Group made a total of RMB50,000 for charitable and other donations (FY2019: RMB10,000).

SUFFICIENCY OF PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established the Audit Committee comprising three independent non-executive Directors of the Company, namely Mr. Suen To Wai, Mr. Lau Jing Yeung William and Mr. Gao Jianhua. Mr. Suen To Wai is the chairman of the Audit Committee.

The Audit Committee has discussed with the management of the Group and reviewed the audited consolidated financial results of the Group for the FY2020, including the accounting standards and practices adopted by the Group, and has also discussed the financial report of the Company and the risk management and internal control mechanism.

AUDITOR

The consolidated financial statements for FY2020 have been audited by BDO Limited whose term of office will expire upon the conclusion of the AGM. BDO Limited will retire, and being eligible, offer themselves for re-appointment. A resolution for their reappointment as the auditor of the Company will be proposed at the forthcoming AGM. BDO Limited is the auditor and reporting accountant of the Group for its Listing on the Stock Exchange.

EVENTS AFTER THE REPORTING PERIOD

On 20 January 2021, 69,090,000 ordinary Shares were issued upon the exercise of the over-allotment option in connection with the Listing at a price of HK$1.77 per Share. Gross proceeds of the additional offering was approximately RMB103,167,000 (equivalent to approximately HK$122,289,000). Please refer to the announcement of the Company dated 18 January 2021 for further details.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past four financial years is set out on page 122 of this report.

On behalf of the Board

Zeng Ming
Chairman

PRC, 25 March 2021

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report
to the Shareholders of Huisen Household International Group Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Huisen Household International Group Limited ("**the Company**") and its subsidiaries (together "**the Group**") set out on pages 54 to 121, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Impairment of trade receivables

Refer to note 21 to the consolidated financial statements

As at 31 December 2020, the Group's trade receivables amounted to approximately RMB1,198,068,000, which in aggregate represented about 23.8% of the total assets of the Group.

Significant management judgement is required to assess the recoverability of trade receivables. Management performed a detailed analysis taking into account customer's ageing profile, credit history and historical payment pattern and the forward-looking information for the estimation of expected credit losses ("**ECLs**") on its trade receivables. Based on management assessment, the Group proposed an accumulated provision of RMB11,981,000 as at year end.

We identified the impairment of trade receivables as a key audit matter because determination of ECLs entailed a significant degree of management judgement.

Our response:

We performed audit procedures in relation to management's impairment assessment of trade receivables which included:

— evaluating the methodology and key assumptions adopted by management in assessing ECLs through discussion made with management;

— challenging the reasonableness of key assumptions adopted by management based on our knowledge of the client's business and industry;

— checking, on a sample basis, the accuracy and relevance of the input data used by management in capturing the aging of individual receivables; and

— checking subsequent settlement of the trade receivables on sampling basis to assess the reasonableness of the ECLs made.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

BDO Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659

Hong Kong, 25 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	7	**3,895,548**	3,719,066
Cost of sales		**(2,951,403)**	(2,835,754)
Gross profit		**944,145**	883,312
Other revenue	8	**6,469**	5,520
Other gains and losses	9	**(89,335)**	1,652
Distribution and selling expenses		**(68,131)**	(65,445)
Administrative expenses		**(76,350)**	(84,219)
Provision of impairment loss recognised on trade receivables, net		**(6,705)**	(858)
Finance costs	10	**(42,720)**	(59,790)
Listing expenses		**(29,514)**	(10,097)
Profit before income tax expense	11	**637,859**	670,075
Income tax expense	15	**(97,176)**	(101,772)
Profit and total comprehensive income for the year		**540,683**	568,303
Total comprehensive income for the year attributable to:			
Owner of the Company		**540,683**	568,303
Earnings per share — Basic and diluted (RMB)	17	**0.24**	0.25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	18	**916,049**	959,525
Right-of-use assets	19	**30,044**	25,186
Prepayments for acquisition of property, plant and equipment	22	**50**	30,784
Other receivables	22	**855**	1,758
Total non-current assets		**946,998**	1,017,253
Current assets			
Inventories	20	**150,361**	171,430
Trade receivables	21	**1,186,087**	1,049,958
Prepayments, deposits and other receivables	22	**50,570**	61,894
Deferred tax assets	26	**1,795**	789
Restricted bank deposits	24	**—**	1,240
Cash and cash equivalents	25	**2,647,848**	1,084,636
Total current assets		**4,036,661**	2,369,947
Total assets		**4,983,659**	3,387,200
Current liabilities			
Trade and bills payables	27	**338,531**	270,981
Other payables and accruals	28	**93,953**	64,761
Borrowings	29	**323,145**	529,615
Lease liabilities	31	**3,750**	2,422
Amount due to an ultimate holding company	23	**—**	13
Income tax payable		**34,847**	24,110
Total current liabilities		**794,226**	891,902
Net current assets		**3,242,435**	1,478,045
Total assets less current liabilities		**4,189,433**	2,495,298

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Borrowings	*29*	**245,032**	126,401
Lease liabilities	*31*	**4,052**	—
Total non-current liabilities		**249,084**	126,401
NET ASSETS		**3,940,349**	2,368,897
Capital and reserves attributable to owners of the Company			
Share capital	*32*	**253,239**	9
Reserves		**3,687,110**	2,368,888
TOTAL EQUITY		**3,940,349**	2,368,897

The consolidated financial statements on pages 54 to 121 were approved and authorised for issue by the Board of Directors on 25 March 2021 and are signed on its behalf by:

Zeng Ming
Director

Zeng Minglan
Director

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

As at 31 December 2020

	Attributable to owners of the Company								
	Share Capital RMB'000 *(Note 32)*	**Capital reserve RMB'000** *(Note 33)*	**Share premium RMB'000** *(Note 33)*	**Statutory reserve RMB'000** *(Note 33)*	**Merger reserve RMB'000** *(Note 33)*	**Translation reserve RMB'000** *(Note 33)*	**Retained earnings RMB'000** *(Note 33)*	**Total RMB'000**	**Total equity RMB'000**
As at 31 December 2018, as originally presented	9	92,425	–	184,418	27,594	–	1,496,219	1,800,665	1,800,665
Adjustment upon initial adoption of HKFRS 16 *(note i)*	–	–	–	–	–	–	(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	9	92,425	–	241,189	27,594	–	2,007,680	2,368,897	2,368,897
As at 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	**–**	**–**	**–**	**54,917**	**–**	**–**	**(54,917)**	**–**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**540,683**	**540,683**	**540,683**
Total comprehensive income	**9**	**92,425**	**–**	**296,106**	**27,594**	**–**	**2,493,446**	**2,909,580**	**2,909,580**
Issuance of new shares upon listing *(Note 32(ii))*	**63,309**	**–**	**1,061,801**	**–**	**–**	**–**	**–**	**1,125,110**	**1,125,110**
Capitalisation issue *(Note 32(ii))*	**189,921**	**–**	**(189,921)**	**–**	**–**	**–**	**–**	**–**	**–**
Expenses attributed to issuance of new shares upon listing	**–**	**–**	**(94,341)**	**–**	**–**	**–**	**–**	**(94,341)**	**(94,341)**
As at 31 December 2020	**253,239**	**92,425**	**777,539**	**296,106**	**27,594**	**–**	**2,493,446**	**3,940,349**	**3,940,349**

Note: (i) Upon the adoption of Hong Kong Financial Reporting Standards 16 Leases on 1 January 2019, an accumulated negative impact of RMB71,000 was recorded as an adjustment to the retained earnings as at 1 January 2019, which represented difference of the depreciation of right-of-use assets and interest of lease liabilities, net of deferred tax impact.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Profit before income tax expense		**637,859**	670,075
Adjustments for:			
Depreciation of property, plant and equipment		**101,864**	98,528
Depreciation of right-of-use assets		**4,116**	3,967
Finance costs		**42,720**	59,790
Interest income		**(4,470)**	(3,400)
Provision of impairment loss recognised on trade receivables, net		**6,705**	858
Loss on disposal of property, plant and equipment		**4,027**	1,195
Operating profits before working capital changes		**792,821**	831,013
Decrease in inventories		**21,069**	57,190
Increase in trade receivables		**(142,834)**	(171,606)
Decrease in prepayments, deposits and other receivables		**5,916**	39,374
Increase in trade and bills payables		**67,550**	4,150
(Decrease)/increase in other payables and accruals		**(6,187)**	10,786
Cash generated from operations		**738,335**	770,907
Income tax paid		**(87,445)**	(99,101)
Net cash generated from operating activities		**650,890**	671,806
Cash flows from investing activities			
Purchases of property, plant and equipment		**(31,849)**	(9,658)
Prepayments paid for acquisition of property, plant and equipment		**–**	(18,784)
Proceeds from disposal of property, plant and equipment		**168**	13,354
Decrease in restricted bank deposits		**1,240**	41,733
Interest received		**4,470**	3,400
Net cash (used in)/generated from investing activities		**(25,971)**	30,045

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Cash flows from financing activities	40		
Repayment of principal portion of the lease liabilities		(3,594)	(3,414)
Proceeds from borrowings		192,199	383,994
Repayment of borrowings		(280,038)	(496,179)
Repayment of puttable shares payable		—	(315,000)
Security deposits paid for borrowings		383	(421)
Interest paid		(42,720)	(94,242)
Advance from an ultimate holding company		—	9
Repayment to an ultimate holding company		(13)	—
Advance from a shareholder		356	1
Repayment to a shareholder		(356)	(1)
Advance from a related party		—	1,500
Expenses attributed to issuance of new shares upon listing		(53,034)	—
Proceeds from issue of new ordinary shares upon listing		1,125,110	—
Net cash generated from/(used in) financing activities		938,293	(523,753)
Net increase in cash and cash equivalents		1,563,212	178,098
Cash and cash equivalents at the beginning of year		1,084,636	906,538
Cash and cash equivalents at the end of year		2,647,848	1,084,636
Analysis of the balances of cash and cash equivalents:			
Cash and bank balances		2,647,848	1,084,636

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

1. GENERAL INFORMATION

(a) General information

Huisen Household International Group Limited ("**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 and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**HKEx**") on 29 December 2020.

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's ultimate holding company is Pure Cypress Limited (incorporated in the British Virgin Islands (the "**BVI**") and the ultimate controlling party is Mr. Zeng Ming ("**Mr. Zeng**").

The Company is an investment holding company and the Group, comprising the Company and its subsidiaries, engaged is principally engagement in manufacturing and selling of panel-type furniture, hardware furniture and furniture ornaments.

(b) Reorganisation

Pursuant to a group reorganisation (the "**Group Reorganisation**") as detailed in the section headed "History, Reorganisation and Corporate Structure" in the prospectus of the Company dated 14 December 2020 (the "**Prospectus**"), the Company became the holding company of the subsidiaries comprising the Group on 15 December 2018.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new or amended HKFRSs — effective 1 January 2020

The Hong Kong Institute of Certified Public Accountants has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform

None of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New or amended HKFRSs that have been issued but are not yet effective

The following amendments to HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 16	Covid-19-Related Rent Concessions[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[5]
Amendments to HKAS 16	Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[3]
HKFRS 17	Insurance Contracts[5]
Amendments to HKFRS 3	Reference to the Conceptual Framework[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[6]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[2]
Annual Improvements to HKFRSs 2018–2020	Amendment to HKFRS 9, Financial Instruments[3]
Annual Improvements to HKFRSs 2018–2020	Amendment to HKFRS 16, Leases[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 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

5 Effective for annual periods beginning on or after 1 January 2023.

6 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New or amended HKFRSs that have been issued but are not yet effective (Continued)

Amendment to HKFRS 16 — Covid-19-Related Rent Concessions

The amendment is effective for annual periods beginning on or after 1 June 2020.

HKFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in HKFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied:

- 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.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of HKFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New or amended HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 1 — Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Interpretation 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Interpretation 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment. Any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements. The directors of the Company anticipate that the application of the amendments will likely impact on the Group's accounting policies in respect of the construction of assets, as certain proceeds of selling items produced whilst bringing assets under construction are currently deducted from the cost of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New or amended HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements. The directors of the Company anticipate that the application of the amendments will likely impact on the Group's accounting policies in respect of the determination of when contracts are onerous, and the measurement of provision for onerous contracts recognised.

HKFRS 17 — Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4, Insurance Contracts. The standard outlines a 'General Model', which is modified for insurance contracts with direct participation features, described as the 'Variable Fee Approach'. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors of the Company do not anticipate that the application of this standard in the future will have an impact on the consolidated financial statements.

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New or amended HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company anticipate that the application of these amendments may have an impact on the consolidated financial statements in future periods should such transaction arise.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 — Interest Rate Benchmark Reform — Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

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2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New or amended HKFRSs that have been issued but are not yet effective (Continued)

Annual Improvements to HKFRSs 2018–2020 — Amendment to HKFRS 9, Financial Instruments

The annual improvements amends a number of standards, including HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

Annual Improvements to HKFRSs 2018–2020 — Amendment to HKFRS 16, Leases

The annual improvements amends a number of standards, including HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**the Listing Rules**").

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("**the Group**"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the 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.

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive processes and whether the acquired set has the ability to produce outputs.

The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Business combination and basis of consolidation (Continued)

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

Changes in the Group's interests in a subsidiary that do not result in a loss of control of the subsidiary are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain 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 interests. Amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for on the same basis as would be required if the relevant assets or liabilities were disposed of.

(b) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) 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 reporting 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%

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) 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.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are recognised as other revenue, rather than reducing the related expense.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(e) Leases

The Group as a lessee

All leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term of less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases (Continued)

The Group as a lessee (Continued)

Right-of-use asset

The right-of-use asset is initially recognised at cost and would comprise:

(i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability);

(ii) any lease payments made at or before the commencement date, less any lease incentives received;

(iii) any initial direct costs incurred by the lessee; and

(iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group accounts for leasehold land and buildings which is held for own use under HKAS 16 and are carried at cost model. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases (Continued)

The Group as a lessee (Continued)

Lease liability (Continued)

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments:

(i) fixed lease payments less any lease incentives receivable;

(ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date;

(iii) amounts expected to be payable by the lessee under residual value guarantees;

(iv) exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and

(v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by:

(i) increasing the carrying amount to reflect interest on the lease liability;

(ii) reducing the carrying amount to reflect the lease payments made; and

(iii) remeasuring the carrying amount to reflect any reassessment or lease modification, or to reflect revised in-substance fixed lease payments.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases (Continued)

The Group as a lessee (Continued)

Lease liability (Continued)

When the Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.

The Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased assets to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss 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 as an expense on the straight-line basis over the lease term.

Any changes in the scope of the consideration for a lease that was not part of the original terms and conditions of the lease are accounted for as lease modifications. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, recognising the remaining lease payments as income on a either a straight-line basis or another systematic basis over the remaining lease term.

(f) 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial Instruments (Continued)

(i) Financial asset (Continued)

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Financial assets at 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.

(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:

- 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and
- 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 measured loss allowances for trade receivables 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial Instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

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 3 months past due.

The Group considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to action such as realising security (if any is held); or the financial asset is more than 33 months 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 amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost including trade, bills and other payables, borrowings, leases liabilities and amount due to an ultimate holding company, 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial Instruments (Continued)

(v) Equity instrument

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) 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.

(g) 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.

(h) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Revenue recognition (Continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Revenue recognition (Continued)

(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.

(i) 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 reporting period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income tax.

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 assets and liabilities that affect neither accounting nor taxable profits, taxable temporary differences arising on investments in subsidiaries where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax liabilities are recognised for all taxable 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 appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period, and reflects any uncertainty related to income taxes.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Income taxes (Continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(j) 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 reporting 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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 annual reporting 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 government of the People's Republic of China (the "**PRC**"), the Group participants in a central pension scheme operated by the local municipal government (the "**Scheme**"), whereby the subsidiaries of the Company in the 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.

(l) Impairment of assets (other than financial assets)

At the end of the reporting 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; and
- right-of-use assets

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets (other than financial assets) (Continued)

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 in profit or loss immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

(m) 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.

(n) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise short-term bank deposits, bank balances and cash are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months 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 short-term bank deposits, bank balances and cash which are not restricted as to use.

(o) 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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.

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. Given Covid-19 pandemic has created and may continue to create significant uncertainty in macroeconomic conditions, actual results may differ from these estimates.

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

(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.

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5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, 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 reporting 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 valued at the lower of cost and net realisable value. The Group regularly reviews its inventory levels in order to identify slow-moving and obsolete merchandise. The Group makes allowance for slow-moving and obsolete items through management's estimation of the net realisable value for such obsolete and slow-moving items based primarily on the latest invoice prices and current market conditions, including the consideration of potential impacts on the subsequent sales orders and demand of its products resulting from the Covid-19 pandemic. When the Group identifies items of inventories which have a market price that is lower than its carrying amount, the Group estimates the amount of write-down of inventories as allowance for inventories. If the market price of inventories of the Group becomes lower than its carrying amount subsequently, an additional allowance may be required.

(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.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Key sources of estimation uncertainty (Continued)

(iii) Impairment of trade receivables, prepayments, deposits and other receivables (Continued)

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.

The economic downturn and uncertainties that have arisen as a result of Covid-19 pandemic have made these estimates more judgemental, which the Group has taken into account in its determination of applicable ECLs attributable to trade receivable arising from sales to customers on credit term, including the incorporation of forward-looking information to supplement historical credit loss rate. Further information on the impairment assessment on trade receivables is provided in Note 37(a).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. SEGMENT INFORMATION

Operating segments

The Group was principally engaged in manufacturing and selling of panel-type 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:

	Revenue from external customers	
	2020	2019
	RMB'000	RMB'000
The United States of America (the "**United States**" or "**U.S.**")	**2,613,090**	2,669,892
The PRC	**217,494**	283,354
Singapore	**164,096**	179,444
Malaysia	**109,511**	88,184
Vietnam	**82,369**	79,612
Canada	**73,640**	68,331
Other locations	**635,348**	350,249
	3,895,548	3,719,066

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 2020 and 2019, all of the Group's non-current assets are located in the PRC.

Shipping terms of the export sales are free-on-board (at ports in the PRC).Therefore the customers are generally responsible for insuring the shipment and handling the importation process, including paying import duties, if any. The Group did not have any overseas tax exposure regarding sales for locations outside of the PRC.

6. SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group's total revenue as follows:

	2020 RMB'000	2019 RMB'000
Customer A	**957,298**	890,240
Customer B	**480,325**	445,178
Customer C	**778,799**	753,037
Customer D	**524,618**	488,479
Customer E	**602,234**	555,306
	3,343,274	3,132,240

7. REVENUE

Revenue represents the net invoiced value of goods sold and earned by the Group.

	2020 RMB'000	2019 RMB'000
Panel-type furniture	**3,606,286**	3,483,930
Upholstered furniture	**129,879**	111,556
Outdoor and sport-type furniture	**159,383**	123,580
	3,895,548	3,719,066
Timing of revenue recognition		
At a point in time	**3,895,548**	3,719,066
Transferred over time	**—**	—
	3,895,548	3,719,066

As at 31 December 2020, no transaction price was allocated to the remaining performance obligations under the Group's existing contracts (2019: Nil).

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8. OTHER REVENUE

	2020 RMB'000	2019 RMB'000
Interest income from bank deposits	**4,470**	3,400
Government grants *(Note)*	**337**	540
Rental income	**159**	160
Sales of trimmed materials	**1,503**	1,420
	6,469	5,520

Note: Government grants mainly represent grants received from local government authority in the PRC 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

	2020 RMB'000	2019 RMB'000
Exchange losses/(gains), net	**85,308**	(2,847)
Losses on disposal of property, plant and equipment	**4,027**	1,195
	89,335	(1,652)

10. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest expenses on bank and other borrowings	**42,443**	56,185
Imputed interest expenses on puttable shares	**–**	3,268
Interest expenses on lease liabilities	**277**	337
	42,720	59,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	2020 RMB'000	2019 RMB'000
Auditors' remuneration	**1,344**	—
Cost of inventories recognised as expenses *(Note)*	**2,951,403**	2,835,754
Depreciation charge:		
— Owned property, plant and equipment *(Note 18)*	**101,864**	98,528
— Right-of-use-assets *(Note 19)*	**4,116**	3,967
	105,980	102,495
Listing expenses — Hong Kong Exchanges and Clearing Limited ("**HKEX**")	**29,514**	10,097
Research and development costs	**15,016**	14,881
Provision of impairment loss recognised on trade receivables, net *(Note 21)*	**6,705**	858
Employee costs *(Note 12)*	**239,163**	230,246

Note: Cost of inventories recognised as expenses includes RMB506,733,000 (2019: RMB486,199,000) of staff costs, depreciation of property, plant and equipment, depreciation of right-of-use assets, subcontracting fee and other manufacturing overheads which are also included in the respective total amounts disclosed above for each of these types of expenses.

12. EMPLOYEE COSTS

	2020 RMB'000	2019 RMB'000
Employee costs (including directors' emoluments *(Note 14)*) comprise:		
Wages and salaries	**210,480**	197,319
Contributions to retirement benefits scheme	**19,587**	23,266
Other employee benefits	**9,096**	9,661
	239,163	230,246

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. RETIREMENT BENEFITS SCHEMES

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) Directors' remuneration

Directors' emoluments is disclosed as follows:

		Year ended 31 December 2020				
	Note	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		–	437	9	–	446
Ms. Zeng Minglan		–	345	9	–	354
Mr. Wu Runlu		–	403	9	–	412
Mr. Su Xinlin		–	437	–	–	437
		–	1,622	27	–	1,649
Independent non-executive directors						
Mr. Suen To Wai	*(ii)*	–	–	–	–	–
Mr. Lau Jing Yeung William	*(ii)*	–	–	–	–	–
Mr. Gao Jianhua	*(ii)*	–	–	–	–	–
		–	–	–	–	–
		–	1,622	27	–	1,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(i) Directors' remuneration (Continued)

		Year ended 31 December 2019				
	Note	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		–	420	11	–	431
Ms. Zeng Minglan		–	1,463	11	–	1,474
Mr. Wu Runlu		–	1,510	11	–	1,521
Mr. Su Xinlin		–	1,895	–	–	1,895
		–	5,288	33	–	5,321
Independent non-executive directors						
Mr. Suen To Wai	*(ii)*	–	–	–	–	–
Mr. Lau Jing Yeung William	*(ii)*	–	–	–	–	–
Mr. Gao Jianhua	*(ii)*	–	–	–	–	–
		–	–	–	–	–
		–	5,288	33	–	5,321

Note:

(i) Salaries and other benefits included basic salaries, housing allowance, other allowances and benefits in kind.

(ii) Mr. Suen To Wai, Mr. Lau Jing Yeung William and Mr. Gao Jianhua were appointed as independent non-executive directors on 2 December 2020.

During the year ended 31 December 2020, 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 (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(ii) Five highest paid individuals

The five highest paid individuals of the Group included three directors (2019: three) whose emoluments are reflected in Note 14(i).

The analysis of the emolument of the remaining two highest paid individuals (2019: two) are set out below:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	713	662
Contributions to retirement benefits scheme	13	20
	726	682

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

	2020	2019
Nil to RMB1,000,000	2	2

None (2019: 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:

	2020	2019
Nil to RMB1,000,000	2	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. INCOME TAX EXPENSE

The amount of taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	2020 RMB'000	2019 RMB'000
Current tax — Enterprise Income Tax of the PRC (the "**PRC EIT**")		
— for the year	**99,003**	100,759
— (Over)/under-provision in prior years	**(821)**	447
	98,182	101,206
Deferred tax *(Note 26)*		
— for the year	**(1,006)**	566
Income tax expense	**97,176**	101,772

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 the BVI, the Company incorporated in the Cayman Islands and the Company's subsidiary incorporated in the 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 the PRC EIT of the PRC subsidiaries of the Group is calculated based on the preferential tax rate of 15% (2019: 15%) as they are recognised as the enterprises of Development of the West Regions according to the tax regulations of the PRC.

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15. INCOME TAX EXPENSE (CONTINUED)

The amount of taxation in the consolidated statements of profit or loss and the comprehensive income represents:

	2020 RMB'000	2019 RMB'000
Profit before income tax expense	**637,859**	670,075
Tax calculated at the PRC EIT statutory tax rate of 25%	**159,465**	167,519
Expenses not deductible for tax purposes	**62**	64
Effect of tax preferential rates granted to the eligible PRC subsidiaries	**(66,915)**	(66,949)
Tax losses/temporary difference not recognised	**8,819**	1,313
Utilisation of unrecognised tax losses	**(3,434)**	(622)
(Over)/under provision in respect of prior years	**(821)**	447
	97,176	101,772

The weighted average effective tax rate was 15.2% (2019: 15.2%).

16. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2020 (2019: Nil).

At a meeting of the directors of the Company held on 25 March 2021, the directors recommended a final dividend of HK$0.079 (equivalent to approximately RMB0.07) per ordinary share, amounting to approximately RMB216,000,000 in total. The proposed dividends are not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2021.

17. EARNINGS PER SHARE

The calculation of the basic diluted earnings per share attributable to ordinary equity holders of the Company is based on the following data:

	2020	2019
Profit for the year attributable to owners of the Company for the purpose of computation of basic earnings and diluted earnings per share (RMB'000)	**540,683**	568,303
Weighted average number of ordinary shares for the purpose of computation of basic and diluted earnings per share	**2,254,109,589**	2,250,000,000
Basic and diluted earnings per share (RMB)	**0.24**	0.25

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2020 included the weighted average number of shares pursuant to issuance of shares of 750,000,000 shares and 2,250,000,000 shares assumed to be in issue throughout the year ended 31 December 2019 as referred to below.

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2019 was based on 2,250,000,000 ordinary shares, representing the total number of ordinary shares of the Company immediately after the Capitalisation Issue of 2,249,900,000 new shares (the "**Capitalisation Issue**" (as defined in Note 32)) as disclosed in the Prospectus, as if all these shares had been in issue throughout the year ended 31 December 2019.

Diluted earnings per share amount was the same as basic earnings per share amount as there were no potential dilutive ordinary shares outstanding for the years ended 31 December 2020 and 2019.

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18. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Machineries RMB'000	Motor vehicles RMB'000	Furniture and equipment RMB'000	Total RMB'000
Cost						
As at 1 January 2019	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)
As at 31 December 2019 and 1 January 2020	393,574	64,426	852,704	3,706	3,344	1,317,754
Additions	–	–	62,353	230	–	62,583
Disposals	–	–	(7,449)	(302)	(9)	(7,760)
As at 31 December 2020	393,574	64,426	907,608	3,634	3,335	1,372,577
Accumulated depreciation and impairment						
As at 1 January 2019	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)
As at 31 December 2019 and 1 January 2020	75,632	8,892	269,829	1,951	1,925	358,229
Provided for the year	18,139	3,025	79,708	465	527	101,864
Eliminated on disposals	–	–	(3,352)	(205)	(8)	(3,565)
As at 31 December 2020	93,771	11,917	346,185	2,211	2,444	456,528
Net book value						
As at 31 December 2020	299,803	52,509	561,423	1,423	891	916,049
As at 31 December 2019	317,942	55,534	582,875	1,755	1,419	959,525

At 31 December 2020, the Group's buildings and machineries with an aggregate carrying amount of approximately RMB336,671,000 (2019: RMB330,419,000) were pledged to secure banking facilities granted to the Group (Note 29).

At 31 December 2020, the Group's machineries with an aggregate carrying amount of approximately RMB22,419,000 (2019: Nil) were pledged to a non-related party for corporate guarantee provided by the non-related party on banking facilities granted to the Group (Note 29).

At 31 December 2020, the Group's machineries with an aggregate carrying amount of approximately RMB89,194,000 (2019: RMB103,999,000) were pledged to secure other loan granted to the Group (Note 29).

19. RIGHT-OF-USE ASSETS

	Land use right RMB'000	Showroom and warehouse RMB'000	Total RMB'000
As at 1 January 2019	23,388	5,765	29,153
Depreciation for the year	(508)	(3,459)	(3,967)
As at 31 December 2019 and 1 January 2020	22,880	2,306	25,186
Effect on modification of lease terms	—	8,974	8,974
Depreciation for the year	(508)	(3,608)	(4,116)
As at 31 December 2020	22,372	7,672	30,044

The interest of land use right in the PRC are prepaid upon acquisition. The Group had also leased properties in USA. The rental agreements for showroom and warehouse are made for a fixed period of 2 years and 5 years respectively which does not impose any restriction or covenant.

At 31 December 2020, the Group's land use right with an aggregate carrying amounts of approximately RMB6,858,000 (2019: RMB6,055,000) were pledged to secure banking facilities granted to the Group (Note 29).

At 31 December 2020, the Group's land use right with an aggregate carrying amounts of approximately RMB11,159,000 (2019: RMB11,407,000) were pledged to a non-related party for corporate guarantee provided by the non-related party on banking facilities granted to the Group (Note 29).

20. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	**78,603**	64,747
Work-in-progress	**9,608**	8,014
Finished goods	**62,150**	98,669
	150,361	171,430

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21. TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	1,198,068	1,055,234
Less: Loss allowance	(11,981)	(5,276)
	1,186,087	1,049,958

The Group's trading term with customers are mainly on credit. The credit terms are generally 0 to 90 days.

Trade receivables with amounts that are individually significant have been separately assessed for impairment.

An ageing analysis, based on the invoice dates, as of the end of the reporting period are as follows:

	2020 RMB'000	2019 RMB'000
Within 1 month	561,353	493,902
1 to 2 months	326,328	239,686
2 to 3 months	310,191	227,530
Over 3 months	196	94,116
	1,198,068	1,055,234

Movement on the Group's provision for impairment on trade receivables are as follows:

	2020 RMB'000	2019 RMB'000
As at 1 January	5,276	4,418
Provision for impairment loss recognised on trade receivables, net *(Note 11)*	6,705	858
As at 31 December	11,981	5,276

21. TRADE RECEIVABLES (CONTINUED)

The following changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during the year:

— increase in the adjustment factors to expected loss rates as a consequence of the Covid-19 pandemic resulted in increase in loss allowance of RMB5,990,000; and

— increase in lifetime expected credit loss after assessing existing or forecast change in business, financial or economic conditions which may cause deterioration in the operating results of the debtors.

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 37.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	**2020** **RMB'000**	2019 RMB'000
Current			
Prepayments		**567**	500
Value added tax recoverable		**47,759**	53,743
Other receivables	*b*	**2,244**	1,723
Deferred listing expenses		**—**	5,928
		50,570	61,894
Non-current			
Prepayments for acquisition of property, plant and equipment		**50**	30,784
Other receivables	*b*	**855**	1,758
		905	32,542
	a	**51,475**	94,436

Note:

(a) 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. There was no provision for impairment on prepayments, deposits and other receivables (2019: No provision).

(b) Other receivables were neither past due nor impaired 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.

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23. AMOUNT DUE TO AN ULTIMATE HOLDING COMPANY

	2020	2019
	RMB'000	RMB'000
Pure Cypress Limited	–	13

The amount due to an ultimate holding company was non-trade in nature, unsecured, interest-free and repayable on demand.

24. RESTRICTED BANK DEPOSITS

	2020	2019
	RMB'000	RMB'000
Restricted bank deposits	–	1,240

Note:

(a) No restricted bank deposits (2019: RMB1,240,000) were pledged to fulfil collateral requirements for bills payable (Note 27).

(b) 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.

25. CASH AND CASH EQUIVALENTS

	2020	2019
	RMB'000	RMB'000
Cash and bank balances	**2,647,848**	1,084,636

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.

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26. DEFERRED TAX

The major deferred tax assets recognised by the Group and movements thereon during the current and prior reporting periods are as follows:

	Accrued expenses RMB'000	Allowance for expected credit loss RMB'000	Total RMB'000
As at 1 January 2019	699	656	1,355
Charged to profit or loss for the year	(699)	133	(566)
As at 31 December 2019 and 1 January 2020	—	789	789
Credited to profit or loss for the year	—	1,006	1,006
As at 31 December 2020	—	1,795	1,795

(a) The unused tax losses carried forward not recognised in the consolidated financial statements due to unpredictability of future profit streams are as follows:

	2020 RMB'000	2019 RMB'000
Unused tax losses	**61,825**	65,594

Tax losses in the PRC 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:

	2020 RMB'000	2019 RMB'000
Tax losses will expire in 2020	**—**	5,682
Tax losses will expire in 2021	**10,039**	10,039
Tax losses will expire in 2022	**14,972**	14,972
Tax losses will expire in 2023	**33,276**	33,276
Tax losses will expire in 2024	**1,625**	1,625
Tax losses will expire in 2025	**1,913**	—
	61,825	65,594

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26. DEFERRED TAX (CONTINUED)

(b) Under the EIT Law and Implementation Regulations, PRC withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to off-shore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. For the Group, the applicable tax rate is 10%. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB2,610,300,000 (2019: RMB2,095,105,000).

The Directors of the Company represent that the undistributed earnings of the PRC subsidiaries as at 31 December 2020 and 2019 will be set aside for expansion of operations, and therefore the Group has not provided for the deferred tax liabilities in respect of withholding tax on the remaining undistributed earnings of the Group's PRC entities as the Group is able to control the timing of reversal of such temporary difference and it is probable that such temporary difference would not be reversed in the foreseeable future.

27. TRADE AND BILLS PAYABLES

	2020 **RMB'000**	2019 RMB'000
Trade payables *(Note (a))*	**338,531**	269,741
Bills payable	**–**	1,240
	338,531	270,981

Note:

(a) An ageing analysis of trade payables as at the respective reporting dates, based on the invoice dates, is as follows:

	2020 **RMB'000**	2019 RMB'000
Within six months	338,531	269,741

The Group's trade payable are non-interest bearing and generally have payment terms of 0 to 30 days.

All the bills payable of the Group were not yet due at the end of the reporting period.

No bills payables were secured by the Group's restricted bank deposits for the year ended 31 December 2020 (2019: RMB1,240,000) (Note 24).

28. OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Other payables	62,199	18,864
Accruals	31,754	45,897
	93,953	64,761

Other payables and accruals are non-interest bearing and are expected to be realised within twelve months from the respective reporting dates.

29. BORROWINGS

	Note	2020 RMB'000	2019 RMB'000
Current			
Bank loans due for repayment within one year	*a, b*	299,000	484,000
Other loans	*c*	24,145	45,615
		323,145	529,615
Non-current			
Bank loans	*a, b*	235,000	110,000
Other loans	*c*	10,032	16,401
		245,032	126,401
Total borrowings		568,177	656,016

Note:

(a) The bank loans are secured by:

(i) the Group's certain buildings and machineries included in property, plant and equipment (Note 18) amounted to RMB336,671,000 (2019: RMB330,419,000);

(ii) corporate guarantee given by a non-related party, in which machineries included in property, plant and equipment (Note 18) amounted to RMB22,419,000 (2019: Nil) are pledged to this non-related party;

(iii) registered capital of Huisen Holding Investment amounted to US$21,000,000 (2019: US$21,000,000);

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29. BORROWINGS (CONTINUED)

Note: (Continued)

(a) (Continued)

(iv) land use right under right-of-use assets (Note 19) amounted to RMB6,858,000 (2019: RMB6,055,000); and

(v) corporate guarantee given by a non-related party, in which land use right under right-of-use assets (Note 19) amounted to RMB11,159,000 (2019: RMB11,407,000) are pledged to this non-related party.

(b) Interest are charged at fixed/floating effective interest rates ranging from 3.4% to 7.99% per annum ("**p.a.**") (2019: 3.685% to 7.99% p.a.).

(c) Other loans of RMB34,177,000 (2019: RMB55,066,000) are secured by the Group's machineries included in property, plant and equipment (Note 18) amounted to RMB89,194,000 (2019: RMB103,999,000). Interests are charged at fixed effective interest rates ranging from 0.79% to 4.275% p.a. (2019: 1.2% to 4.275% p.a.).

As at 31 December 2019, other loans of RMB6,950,000 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% p.a. Then the loans were fully settled in October 2020.

At the end of the reporting period, total current and non-current borrowings were scheduled to repay as follows:

	2020 RMB'000	2019 RMB'000
Bank loans		
On demand or within one year	**299,000**	484,000
More than one year, but not exceeding two years	**220,000**	40,000
More than two years, but not exceeding five years	**15,000**	70,000
	534,000	594,000
Other loans		
On demand or within one year	**24,145**	45,615
More than one year, but not exceeding two years	**8,513**	16,401
More than two years, but not exceeding five years	**1,519**	—
	34,177	62,016
Total borrowings	**568,177**	656,016

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30. 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 Tongyuan Cultural Industry Investment and Development Co., Limited* (華融通遠(上海)投資管理有限公司, "**Shanghai Huarong**"), Shanghai Huarong agreed to subscribe for the registered capital of Huiming Wood of approximately RMB8,485,000, representing 6.54% registered capital of Huiming Wood by way of additional cash contribution of RMB350,000,000. 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 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 RMB350,000,000 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 reporting period are analysed as follows:

	2020 **RMB'000**	2019 RMB'000
At 1 January	–	349,452
Repayment of advances	–	(315,000)
Imputed interest incurred on puttable shares	–	3,268
Preferred dividend paid	–	(37,720)
As at 31 December	–	–

* English names of the subsidiaries are translated directly from their corresponding official Chinese names.

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31. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Current		
Within one year	3,750	2,422
Non-current		
More than one year, but not exceeding two years	2,808	—
More than two years, but not exceeding five years	1,244	—
	4,052	—
	7,802	2,422

The leases of the Group are with fixed payments only (2019: fixed payments only). The lease contracts signed by the Group did not contain any extension options exercisable (2019: no extension options exercisable).

The reconciliation of movements in the lease liabilities during the reporting period is presented below:

	2020 RMB'000	2019 RMB'000
As at 1 January	2,422	—
Adjustment upon initial adoption of HKFRS 16	—	5,836
As at 1 January, adjusted	2,422	5,836
Effect on modification of lease terms	8,974	—
Interest expense	277	337
Lease payments	(3,871)	(3,751)
As at 31 December	7,802	2,422

The lease liabilities recognised from the lease of showroom and warehouse, the details of the leases were disclosed in Note 19.

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32. SHARE CAPITAL

	Number '000	**Amount** HK$000	**Amount** RMB'000
Ordinary shares of par value of HK$0.1 each			
Authorised			
As at 1 January 2019, 31 December 2019 and 1 January 2020	3,800,000	380,000	337,539
Increase in authorised share capital *(Note (i))*	6,200,000	620,000	506,591
As at 31 December 2020	10,000,000	1,000,000	844,130
Issued and fully paid			
As at 1 January 2019, 31 December 2019 and 1 January 2020	100	10	9
Issuance of shares for Capitalisation Issue *(Note (ii))*	750,000	75,000	63,309
Issuance of new shares upon listing *(Note (ii))*	2,249,900	224,990	189,921
As at 31 December 2020	3,000,000	300,000	253,239

Notes:

(i) On 2 December 2020, the authorised share capital of the Company was increased from HK$380,000,000 divided into 3,800,000,000 Shares to HK$1,000,000,000 divided into 10,000,000,000 Shares by the creation of additional 6,200,000,000 Shares which rank pari passu in all respects with the Shares issued before 2 December 2020.

(ii) In connection with the Company's issuance of new shares upon listing, the Company allotted and issued 300,000,000 shares and 450,000,000 shares of HK$0.1 each at a price of HK$1.77 per Share on 28 December 2020 and 29 December 2020 respectively as a result of the completion of listing. The gross proceeds from issuance of new shares of approximately RMB1,125,110,000 (equivalent to approximately HK$1,332,865,000) of which approximately RMB63,310,000 (equivalent to approximately HK$75,000,000) was credited to the Company's share capital, and the remaining balance of approximately RMB1,061,801,000 (equivalent to approximately HK$1,257,865,000) before deduction of share issuance expenses, was credited to share premium account. The share premium account can be used for deduction of share issuance expenses. After the share premium account of the Company being credited as a result of the issuance of new shares upon listing, RMB189,921,000 (equivalent to approximately HK$224,990,000) was capitalised from the share premium account and applied in paying up in full at par 2,249,900,000 new Shares for allotment and issue to shareholders whose names appear on the register of members of the Company at the close of business on 29 December 2020 in proportion to their respective shareholdings ("**Capitalisation Issue**").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. RESERVES

(a) The Group

Details of the movements in the reserves of the Group during the reporting period are set out in the consolidated statements of changes in equity.

(b) The Company

	Share Premium	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2019	—	(5)	(5)
Loss for the year	—	(4)	(4)
As at 31 December 2019 and 1 January 2020	—	(9)	(9)
Issuance of new shares upon listing *(Note 32(ii))*	1,061,801	—	1,061,801
Capitalisation issue *(Note 32(ii))*	(189,921)	—	(189,921)
Expenses attributed to issuance of new shares upon listing	(94,341)	—	(94,341)
Loss for the year	—	(29,160)	(29,160)
As at 31 December 2020	777,539	(29,169)	748,370

33. RESERVES (CONTINUED)

(c) The following describes the nature and purpose of each reserve within owner's equity:

Reserve	Description and purpose
Share premium	Capital injection in excess of the fully paid and issued ordinary shares of the Company.
Capital reserve	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 laws and regulations of the PRC and the articles of association of the subsidiaries of the Company incorporated in the PRC, the subsidiaries in the PRC are required to transfer 10% of their net profit as determined in accordance with accounting rules and regulations of the PRC to the statutory 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 subsidiaries in the PRC acquired pursuant to the Group Reorganisation for the listing purpose.
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.

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34. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

	Note	2020 RMB'000	2019 RMB'000
Non-current asset			
Interest in subsidiaries	35	—*	—*
Total non-current asset		—*	—*
Current assets			
Amounts due from subsidiaries		1,009,474	11
Cash and cash equivalents		42,542	2
Total current assets		1,052,016	13
Total assets		1,052,016	13
Current liabilities			
Amount due to an ultimate holding company		—	13
Amount due to a subsidiary		7,010	—
Accruals		43,397	—
Total current liabilities		50,407	13
Net current assets		1,001,609	—
Total assets less current liabilities		1,001,609	—
NET ASSETS		1,001,609	—
Capital and reserves attributable to the owners of the Company			
Share capital	32	253,239	9
Reserves	33	748,370	(9)
Total equity		1,001,609	—

* Represents amount less than RMB1,000.

ZENG Ming
Director

ZENG Minglan
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. INTEREST IN SUBSIDIARIES

The Company

	2020 RMB'000	2019 RMB'000
Unlisted investment, at cost	—*	—*

* Represents amount less than RMB1,000.

Details of the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ establishment and form of business structure	Percentage of equity attributable to the Company in 2020 and 2019 Directly	Indirectly	Issued and fully paid share capital/ registered capital	Principal activities and principal place of business
Haze Everest Limited (嵐峰有限公司)	BVI, limited liability company	100%	–	US$50,000	Investment holding, BVI
Huisen International Group Limited (匯森國際集團有限公司)	Hong Kong ("**HK**"), limited liability company	–	100%	HK$1	Investment holding, HK
Huisen Holding Investment (Ganzhou) Co., Limited* (匯森控股投資(贛州)有限公司)	The PRC, limited liability company	–	100%	US$21,000,000	Investment holding, the PRC
Ganzhou Huiming Wood Industry Co., Limited* (贛州匯明木業有限公司)	The PRC, limited liability company	–	100%	RMB129,696,947	Development, production and sales of board type furniture, the PRC
Huisen Furniture (Longnan) Co., Limited* (匯森傢俱(龍南)有限公司)	The PRC, limited liability company	–	100%	RMB363,820,000	Development, production and sales of ready-to-assemble and knock-down furniture; household accessories and decorations, the PRC
Huisen Mingda (Longnan) Furniture Co., Limited* (匯森明達(龍南)傢俱有限公司)	The PRC, limited liability company	–	100%	RMB200,000,000	Development, production and sales of ready-to-assemble and knock-down furniture; household accessories and decorations, the PRC
Weiye Jiankang Technology (Longnan) Co., Limited* (偉業健康科技(龍南)有限公司)	The PRC, limited liability company	–	100%	RMB22,035,846	Development, production and sales of steel/metal type, outdoor and sports-type furniture, the PRC
Ganzhou Aigesen Wood Panel Co., Limited* (贛州愛格森人造板有限公司)	The PRC, limited liability company	–	100%	RMB380,000,000	Manufacture of wooden, particle and fiber panels or boards, the PRC
Huisen Smart Home Technology (Longnan) Co., Limited* (匯森智能家居科技(龍南)有限公司)	The PRC, limited liability company	–	100%	RMB100,000,000	Trading and sale of upholstered furniture, the PRC

* English names of the subsidiaries are translated directly from their corresponding official Chinese names.

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36. RELATED PARTY TRANSACTIONS

(a) Significant transactions with related parties

During the year, the Group entered into the following transaction with a related party:

Name of company	Nature of transaction	2020 RMB'000	2019 RMB'000
Shanghai Huarong	Imputed interest expenses on puttable shares *(Note 30)*	–	3,268

Shanghai Huarong was a registered investor of Huiming Wood, a PRC subsidiary of the Group before 20 February 2019. The related party transaction was carried out on terms and conditions mutually agreed between contracting parties.

(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 years ended 31 December 2020 and 2019 are set out in Note 14 to the consolidated financial statements.

(c) Outstanding balance with related parties

Details of the Group's amount due to an ultimate holding company are included in Note 23.

37. FINANCIAL RISK MANAGEMENT

The Group's principal financial assets are trade receivables, other receivables, 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 and amount due to an ultimate holding company. 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 the reporting 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.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 reporting period and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level. In response to the Covid-19 pandemic, management has also been performing more frequent reviews of credit limits for customers in regions and industries that are severely impacted.

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 reporting 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 RMB'000	3 to 9 months past due RMB'000	9 to 21 months past due RMB'000	21 to 33 months past due RMB'000	Over 33 months past due RMB'000	Total RMB'000
As at 31 December 2020						
Expected loss rate	1%	7%	28%	70%	100%	
Gross carrying amount	1,198,068	–	–	–	–	1,198,068
Loss allowance provision	11,981	–	–	–	–	11,981
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

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37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

As at 31 December 2020 and 2019, the fair value of trade receivables approximated their carrying amounts. For the year ended 31 December 2020, the directors of the Group considered the effects of Covid-19 pandemic 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. As a result, the expected credit loss rates slightly increased during the year ended 31 December 2020 (2019: No material change in the structure and credit status of the customers of the Group). 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.

	2020 **RMB'000**	2019 RMB'000
Five largest customers	**1,081,226**	939,992

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 reporting 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 reporting period.

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37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (Continued)

	Weighted average effective interest rate %	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
As at 31 December 2020						
Trade and bills payables		338,531	338,531	338,531	–	–
Other payables and accruals		90,604	90,604	90,604	–	–
Borrowings	5.9%	568,177	622,343	408,241	161,636	52,466
Lease Liabilities	7.5%	7,802	8,511	4,202	2,970	1,339
Amount due to an ultimate holding company		–	–	–	–	–
		1,005,114	1,059,989	841,578	164,606	53,805

	Weighted average effective interest rate %	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
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	6.2%	656,016	695,100	563,607	64,802	66,691
Lease Liabilities	7.5%	2,422	2,795	2,795	–	–
Amount due to an ultimate holding company		13	13	13	–	–
		991,397	1,030,854	899,361	64,802	66,691

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 25), 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.

As at 31 December 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 RMB443,000 (2019: RMB455,000). 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.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 of the reporting period are as follows:

	2020 RMB'000	2019 RMB'000
Denominated in US$		
Trade receivables	1,175,143	1,028,220
Cash and cash equivalents	1,036,791	10,226
Overall net exposure	2,211,934	1,038,446

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 the reporting 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 reporting period.

	Effect on profit after income tax	
	2020 RMB'000	2019 RMB'000
US$ to RMB		
Appreciation by 1%	17,392	7,788
Depreciation by 1%	(17,392)	(7,788)

During the reporting 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 reporting period.

The Group monitors capital using a gearing ratio, which is total debt divided by total capital. Total debt is calculated as borrowings, lease liabilities and amount due to an ultimate holding company. Capital includes equity attributable to owners of the Company.

	2020 RMB'000	2019 RMB'000
Total debt	575,979	658,451
Equity attributable to the owners of the Company	3,940,349	2,368,897
Total debt and equity	4,516,328	3,027,348
Gearing ratio	15%	28%

(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, amount due to 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 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	2020 RMB'000	2019 RMB'000
Financial assets		
Loans and receivables — non-current		
Other receivables	855	1,758
Loans and receivables — current		
Trade receivables	1,186,087	1,049,958
Other receivables	2,244	1,723
Restricted bank deposits	—	1,240
Cash and cash equivalents	2,647,848	1,084,636
	3,836,179	2,137,557
	3,837,034	2,139,315
Financial liabilities		
Financial liabilities at amortised costs — current		
Trade and bills payables	338,531	270,981
Other payables	90,604	61,964
Borrowings	323,145	529,615
Lease liabilities	3,750	2,422
Amount due to an ultimate holding company	—	13
	756,030	864,995
Financial liabilities at amortised costs — non-current		
Borrowings	245,032	126,401
Lease liabilities	4,052	—
	249,084	126,401
	1,005,114	991,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

39. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

	Borrowings RMB'000	Puttable shares payable RMB'000	Amounts due to a shareholder RMB'000	Amount due to an ultimate holding company RMB'000	Lease liabilities RMB'000
As at 1 January 2019	768,201	349,452	–	4	5,836
Changes from cash flow:					
Proceeds from new borrowings	383,994	–	–	–	–
Repayment of borrowings	(496,179)	–	–	–	–
Repayment of principal portion of the lease liabilities	–	–	–	–	(3,414)
Repayment of principal during the year	–	(315,000)	–	–	–
Repayment to shareholders	–	–	(1)	–	–
Advance from a shareholder	–	–	1	–	–
Advance from an ultimate holding company	–	–	–	9	–
Interest paid	(56,185)	(37,720)	–	–	(337)
	599,831	(3,268)	–	13	2,085
Other changes:					
Interest expenses	56,185	3,268	–	–	337
As at 31 December 2019 and 1 January 2020	**656,016**	**–**	**–**	**13**	**2,422**
Changes from cash flow:					
Proceeds from new borrowings	**192,199**	**–**	**–**	**–**	**–**
Repayment of borrowings	**(280,038)**	**–**	**–**	**–**	**–**
Repayment of principal portion of the lease liabilities	**–**	**–**	**–**	**–**	**(3,594)**
Advance from a shareholder	**–**	**–**	**356**	**–**	**–**
Repayment to a shareholder	**–**	**–**	**(356)**	**–**	**–**
Repayment to an ultimate holding company	**–**	**–**	**–**	**(13)**	**–**
Interest paid	**(42,443)**	**–**	**–**	**–**	**(277)**
	525,734	**–**	**–**	**–**	**(1,449)**
Other changes:					
Interest expenses	**42,443**	**–**	**–**	**–**	**277**
Effect on modification of lease terms	**–**	**–**	**–**	**–**	**8,974**
As at 31 December 2020	**568,177**	**–**	**–**	**–**	**7,802**

40. LEASE ARRANGEMENTS

Operating leases — lessor

The Group leases its office premises in the PRC to certain tenants during the reporting period.

The minimum rent receivables under non-cancellable operating leases are as follows:

	2020 RMB'000	2019 RMB'000
Within one year	113	125
In the second to fifth year	59	30
	172	155
Initial period of the lease	2 years to 5 years	2 years to 5 years

41. EVENT AFTER THE REPORTING DATE

On 20 January 2021, 69,090,000 ordinary shares of the Company were issued upon the exercise of the over-allotment option in connection with the Listing at a price of HK$1.77 per share. Gross proceeds of the additional offering was approximately RMB103,167,000 (equivalent to approximately HK$122,289,000).

FOUR YEARS FINANCIAL SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended 31 December			
	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Revenue	2,823,880	3,327,221	3,719,066	**3,895,548**
Profit before income tax expense	405,523	476,530	670,075	**637,859**
Income tax expense	(70,742)	(91,066)	(101,772)	**(97,176)**
Profit for the year	334,781	385,464	568,303	**540,683**
Profit for the year attributable to:				
Owners of the Company	334,781	385,464	568,303	**540,683**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December			
	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Non-current asset	1,168,032	1,100,881	1,017,253	**946,998**
Current asset	1,983,591	2,160,252	2,369,947	**4,036,661**
Current liabilities	1,395,583	1,170,323	891,902	**794,226**
Net current (liabilities)/assets	588,008	989,929	1,478,045	**3,242,435**
Total assets less current liabilities	1,756,040	2,090,810	2,495,298	**4,189,433**
Non current liabilities	312,061	290,145	126,401	**249,084**
Net assets	1,443,979	1,800,665	2,368,897	**3,940,349**
Capital and reserve				
Share capital	—	9	9	**253,239**
Reserves	1,443,979	1,800,656	2,368,888	**3,687,110**
Equity attribute to the owner of the Company	1,443,979	1,800,665	2,368,897	**3,940,349**
Total equity	1,443,979	1,800,665	2,368,897	**3,940,349**