



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



INTERIM REPORT 2023

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CORPORATE INFORMATION

Executive Directors

Mr. Zeng Ming (Chairman)
Ms. Zeng Minglan
Mr. Wu Runlu

Independent non-executive Directors

Mr. Suen To Wai
Ms. Zhang Lingling
Mr. Feng Zhaowei

Audit Committee

Mr. Suen To Wai (Chairman)
Mr. Feng Zhaowei
Ms. Zhang Lingling

Remuneration Committee

Mr. Suen To Wai (Chairman)
Ms. Zeng Minglan
Mr. Feng Zhaowei

Nomination Committee

Mr. Feng Zhaowei (Chairman)
Mr. Suen To Wai
Mr. Zeng Ming

Corporate Governance Committee

Mr. Suen To Wai (Chairman)
Ms. Zeng Minglan
Ms. Zhang Lingling

Risk Management Committee

Mr. Zeng Ming (Chairman)
Ms. Zeng Minglan
Ms. Zhang Lingling

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 City
Jiangxi Province
PRC

Principal Place of Business in Hong Kong

5/F, Manulife Place
348 Kwun Tong Road
Kowloon
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
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Auditor

BDO Limited

Legal Advisers

As to Cayman Islands law:
Conyers Dill & Pearman

Principal Bankers

Agricultural Bank of China
Industrial and Commercial Bank of China
Bank of Ganzhou

Stock Code

2127

Company Website

www.jxhmgroupp.com

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The slowdown of the global economy has led to the continued interest rate hikes in the developed countries in Europe and the United States (“**U.S.**”), which caused high real estate prices, rising cost of home purchases for the residents, and declining demand in the furniture market in the U.S..

BUSINESS REVIEW

Among the overseas markets to which our furniture products are exported to, the U.S. is the principal market of the Group. The weakened real estate markets, the remained high cost of home purchase, and a relatively faint furniture market in Europe and the U.S. have led to the decrease in the number of orders from the major customers of the Group.

During the Reporting Period, the Group continued to strengthen its original design capability and launch more original design manufacturing (“**ODM**”) products. Revenue of ODM furniture accounted for 83.2% of the Group’s total sales for the Reporting Period, and the proportion maintained at above 80%.

On 4 April 2023, Ganzhou Huiming Wood Industry Co., Limited* (贛州匯明木業有限公司) (“**Huiming Wood**”), an indirect wholly-owned subsidiary of the Company as the intended purchaser entered into a non-legally binding memorandum of understanding (the “**MOU**”) with two individuals, namely Qun Huang* (黃群) and Min Zhuo* (卓敏) as the intended vendors (collectively, the “**Vendors**”), pursuant to which Huiming Wood intended to acquire and the Vendors intended to sell the entire equity interest of Jiangxi Bashen Data Technology Co., Ltd.* (江西八神數據科技有限公司) (“**Jiangxi Bashen**”), a company located in Jiangxi Province, the PRC. As at the date of the MOU, the Vendors held the entire equity interest in Jiangxi Bashen. Jiangxi Bashen is principally engaged in the provision of information technology solutions services mainly to furniture manufacturers in the PRC.

On 12 May 2023, Huiming Wood and the Vendors entered into the sale and purchase agreement, pursuant to which Huiming Wood has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the 100% equity interest in Jiangxi Bashen at a consideration of RMB160,000,000 in accordance with the terms and conditions of the sale and purchase agreement. The sales shares represent 100% equity interest in the target company.

On 21 June 2023, the Company received a winding-up petition against the Company (the “**Petition**”) filed by Transpac Investment Management Limited (the “**Petitioner**”) at the High Court of the Hong Kong Special Administrative Region (the “**Court**”) in relation to the Company’s non-payment of the consultancy fees to the Petitioner in a total amount of HK\$7,500,000. The Petition will be heard before the Court on 18 October 2023. The Company is seeking legal action against the Petition firmly and is taking all necessary actions to protect the legal rights of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the Reporting Period, the revenue of the Group amounted to RMB1.48 billion, representing a decrease of 24.5% as compared to the corresponding period of 2022, while the net profit was RMB0.16 billion, representing a decrease of 46.0% as compared to the corresponding period of 2022. The decrease in revenue was mainly due to the continued interest rate hikes, high real estate prices, rising costs of home purchases, declining demand in furniture products, and falling prices of some furniture products in the countries in Europe and the U.S. during the Reporting Period.

Revenue and Gross Profit Margin by Product Types

	For the six months ended 30 June 2023			For the six months ended 30 June 2022			Change in Revenue (%)
	Revenue (RMB'000)	Proportion (%)	Gross Profit Margin (%)	Revenue (RMB'000)	Proportion (%)	Gross Profit Margin (%)	
Panel-type furniture	1,405,459	94.8	13.3	1,854,640	94.5	20.3	(24.2)
Upholstered furniture	37,846	2.6	13.2	53,740	2.7	30.6	(29.6)
Sport-type furniture	38,554	2.6	10.1	53,920	2.7	26.6	(28.5)
Others <i>(Note)</i>	193	0.0	11.2	924	0.0	19.5	(79.1)
Total:	<u>1,482,052</u>	<u>100.0</u>	<u>13.2</u>	<u>1,963,224</u>	<u>100.0</u>	<u>20.8</u>	<u>(24.5)</u>

Note: Others is referring to the trading of furniture products.

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 the Reporting Period, the decrease in demand from the overseas market such as the U.S. led to a decrease in revenue of panel-type furniture from approximately RMB1.85 billion to approximately RMB1.41 billion for the Reporting Period, representing a decrease of 24.2%. The decrease in gross profit margin was mainly attributable to the reduction in average selling price for some of the panel-type furniture.

Upholstered Furniture

The Group's upholstered furniture mainly includes sofas. During the Reporting Period, the revenue from upholstered furniture recorded a decrease of approximately 29.6%. The decrease in revenue was mainly due to the decrease in demand for upholstered furniture as a result of the slowdown of the real estate market in Europe and the U.S. During the Reporting Period, the average selling price for some of the upholstered furniture has been reduced, leading to an overall decrease in the gross profit margin of the upholstered furniture.

MANAGEMENT DISCUSSION AND ANALYSIS

Sport-type Furniture

Sport-type furniture mainly includes table tennis tables and pool tables. During the Reporting Period, the revenue from sport-type furniture amounted to RMB38.6 million, representing a decrease of 28.5% from the corresponding period of 2022, mainly due to the decrease in order during the Reporting Period. The gross profit margin of sport-type furniture decreased from 26.6% in the corresponding period of 2022 to 10.1% in the Reporting Period, mainly due to the reduction in the selling price of some of the products.

Sales by Geographical Regions

Regions	For the six months ended 30 June 2023		For the six months ended 30 June 2022		Change in Revenue (%)
	Revenue (RMB'000)	Proportion (%)	Revenue (RMB'000)	Proportion (%)	
United States	887,552	59.9	1,271,574	64.8	(30.2)
PRC	99,993	6.8	115,597	5.9	(13.5)
Canada	47,532	3.1	48,379	2.5	(1.8)
Singapore	47,512	3.2	59,083	3.0	(19.6)
Vietnam	45,717	3.1	45,622	2.3	0.2
Malaysia	45,086	3.0	54,035	2.7	(16.6)
Others	308,660	20.9	368,934	18.8	(16.3)
Total:	<u>1,482,052</u>	<u>100.0</u>	<u>1,963,224</u>	<u>100.0</u>	<u>(24.5)</u>

During the Reporting Period, the furniture products of the Group were mainly sold to the U.S. and the sales from the U.S. accounted for a significant portion of the revenue of the Group. The revenue derived from the sales to the U.S. decreased by 30.2% in the first half of 2023 compared to the corresponding period of 2022, and the proportion has decreased from 64.8% in the first half of 2022 to 59.9% in the first half of 2023, representing a decrease of approximately 5%, mainly because the Group actively expanded the sales to downstream markets such as mainland China and other regions. The Group strived to expand sales outside the U.S. to reduce its reliance on the U.S. market.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales to Top Five Customers

Customer	For the six months ended 30 June 2023		For the six months ended 30 June 2022		Change in Revenue (%)
	Revenue (RMB'000)	Proportion (%)	Revenue (RMB'000)	Proportion (%)	
Customer C	311,340	21.0	403,924	20.6	(22.9)
Customer A	299,435	20.2	480,210	24.5	(37.6)
Customer D	258,669	17.5	269,809	13.7	(4.1)
Customer E	201,038	13.6	290,250	14.8	(30.7)
Customer B	183,876	12.4	238,505	12.1	(22.9)
Total	<u>1,254,358</u>	<u>84.7</u>	<u>1,682,698</u>	<u>85.7</u>	<u>(25.5)</u>

Maintaining a stable and long-term business relationship with major customers is the foundation for the Group's success. Given the Group's competitive advantages in the furniture manufacturing industry such as strong research and development capabilities which allow the Group to offer products of different types and designs and products that suit the overseas market preference, our customers have developed greater reliance on the Group. During the Reporting Period, the aggregate sales to the top five customers accounted for approximately 84.7% of the total sales of the Group for the Reporting Period, representing a decrease of approximately 1.0% from the six months ended 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Sale of ODM and Original Equipment Manufacturing (“OEM”) Furniture (Excluding Particleboards)

	For the six months ended 30 June 2023		For the six months ended 30 June 2022		Change in Revenue (%)
	Revenue RMB'000	Proportion (%)	Revenue RMB'000	Proportion (%)	
ODM	1,223,439	83.2	1,584,935	81.1	(22.8)
OEM	247,832	16.8	369,088	18.9	(32.9)
Total	<u>1,471,271</u>	<u>100.0</u>	<u>1,954,023</u>	<u>100.0</u>	<u>(24.7)</u>

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 customer dependency and our competitiveness. As for the OEM products, we strictly follow the specifications and requirements provided by our customers. Notwithstanding the decrease in market demand during the Reporting Period, the Group still maintains a high level of independent capabilities on design, and the sales of ODM still accounted for more than 80% of the total sales.

Breakdown of the Cost of Sales

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

	For the six months ended 30 June 2023 (RMB'000)	For the six months ended 30 June 2022 (RMB'000)	Change (%)
Cost of materials consumed	1,088,711	1,279,479	(14.9)
Overhead costs	93,070	152,019	(38.8)
Direct labour	99,753	110,162	(9.4)
Subcontracting fees	4,612	13,893	(66.8)
Total	<u>1,286,146</u>	<u>1,555,553</u>	<u>(17.3)</u>

The Group's cost of sales during the Reporting Period decreased by 17.3% from approximately RMB1.56 billion in the first half of 2022 to approximately RMB1.29 billion in the first half of 2023. Such decrease was due to the decrease in cost of materials consumed because of the decrease in sales of furniture products. The subcontracting fees decreased by 66.8% period-on-period mainly due to the decrease in orders placed by customers during the Reporting Period, which reduced the need of subcontracting.

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of Other Gains and Losses

Other gains and losses include the following breakdown:

	For the six months ended 30 June 2023 (RMB'000)	For the six months ended 30 June 2022 (RMB'000)
Exchange gains, net	<u>58,170</u>	<u>60,485</u>
Total:	<u><u>58,170</u></u>	<u><u>60,485</u></u>

The other gains and losses mainly consist of exchange gains/(losses) which primarily arise from the difference between the exchange rates at which the trade receivables denominated in U.S. dollars are recorded and settled.

During the Reporting Period, the exchange rate of U.S. dollars against RMB fluctuated significantly with an appreciation trend in general. As a result, the Group encountered an exchange gain during the Reporting Period.

During the Reporting Period, there were no disposals of property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Consolidated Statement of Cash Flow

	For the six months ended 30 June 2023 (RMB'000)	For the six months ended 30 June 2022 (RMB'000)	Change (%)
Operating profits before working capital changes	219,090	416,312	(47.4)
Change in working capital	(430,491)	303,504	(241.8)
Income tax paid	(7,478)	(62,082)	(88.0)
Net cash (used in)/generated from operating activities	(218,879)	657,734	(133.3)
Net cash used in investing activities	(332,893)	(917,863)	(63.7)
Net cash used in financing activities	(29,452)	(103,455)	(71.5)

Liquidity and Financial Resources

As at 30 June 2023, the cash and bank balances of the Group were approximately RMB924.6 million.

As at 30 June 2023, the Group had short-term borrowings of approximately RMB316.3 million (31 December 2022: approximately RMB293.8 million) repayable within one year and long-term borrowings of approximately RMB60.0 million (31 December 2022: approximately RMB100.0 million). The Group's major bank borrowings are denominated in RMB and bear interest at fixed and floating rates. As at 30 June 2023, the borrowings with the fixed interest rates amounted to approximately RMB376.3 million (31 December 2022: approximately RMB393.8 million) and range from 3.4% to 7.4% per annum (31 December 2022: 3.4% to 7.6% per annum).

The Group's main sources of working capital are cash generated from operating activities and bank deposits. As at 30 June 2023, the Group's current ratio was 5.05 (31 December 2022: approximately 7.8). As at 30 June 2023, the Group's gearing ratio was approximately 7.4% (31 December 2022: approximately 8.1%), which is calculated by dividing the total debt by the equity attributable to the equity owners of the Group.

Inventory Provision

As of 30 June 2023, the Group has not made any provisions for impairment of inventories (31 December 2022: 28.4 million). The Group estimates whether to withdraw inventory provision based on the inventory turnover days and sales performance of each product. During the Reporting Period, the Group's inventory sales were smooth with healthy turnover days, and there were no signs which were unsalable or should be impaired.

MANAGEMENT DISCUSSION AND ANALYSIS

Impairment of Trade and Other Receivables

Trade receivables mainly refer to the outstanding amounts receivable by the Group from customers. After conducting business with customers for a period, the Group would review their creditworthiness and credit period granted to these customers may be adjusted. The Group generally provides a credit period of five months at maximum for export sales customers and 30 days at maximum for domestic sales customers. The Group records trade receivables net of any impairment provision made. For methods adopted for determining the provisions for expected losses on trade receivables, please refer to Note 14 to the Condensed Consolidated Financial Statements.

As of 30 June 2023, our trade receivables (net of impairment provision) amounted to approximately RMB1,310.6 million. During the Reporting Period, reversal of impairment provision for trade receivables was approximately RMB3.5 million.

Pledge of Assets

As of 30 June 2023, the Group's immovables, machineries and equipment with a carrying amount of approximately RMB491.5 million (31 December 2022: RMB427.3 million) were pledged to secure borrowings granted to the Group by financial institutions.

Capital Commitments and Contingent Liabilities

As at 30 June 2023, the Group had no significant capital commitments or contingent liabilities.

Foreign Exchange Exposure

During the Reporting Period, the Group had not adopted any financial instrument to hedge its 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 the Group's financial position and profitability.

Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures

On 12 May 2023, Huiming Wood, an indirect wholly-owned subsidiary of the Company and the Vendors entered into the sale and purchase agreement in relation to the acquisition of 100% equity interest in Jiangxi Bashen at a consideration of RMB160 million. As at 30 June 2023, RMB57.3 million has been paid by the Group. Jiangxi Bashen is principally engaged in the provision of information technology solutions services mainly to furniture manufacturers in the PRC. Pursuant to the sale and purchase agreement, the completion of the transaction is subject to fulfillment and/or waiver of the conditions precedent set out therein, and the fulfillment (or waiver, if applicable) shall be taken place on or before the long stop date, being three (3) months after the date of the sale and purchase agreement (i.e. 11 August 2023), or such other date as may be mutually agreed by Huiming Wood and the Vendors.

As additional time is required for fulfillment of the conditions precedent to the sale and purchase agreement, Huiming Wood and the Vendors agreed in writing after arm's length negotiations to extend the long stop date to five (5) months after the date of the sale and purchase agreement (i.e. 11 October 2023), or such other date as may be mutually agreed by Huiming Wood and the Vendors.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, during the Reporting Period, there were no material acquisitions or disposals of subsidiaries, associates and joint ventures by the Group.

Significant Investments

During the Reporting Period, save as disclosed under the section headed “Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures”, the Group did not hold other significant investments and material investments plan, the fair value of which accounted for more than 5% of the Group’s total assets.

Future Plans for Material Investments and Capital Assets

During the Reporting Period, save as disclosed under the section headed “Use of Proceeds from Global Offering”, the Group had no other plans for material investment or acquisition of capital assets.

Human Resources and Training

As of 30 June 2023, the Group had a total of 3,001 employees (30 June 2022: 3,228 employees), and the total staff costs were approximately RMB142.4 million (30 June 2022: approximately RMB145.4 million). The remuneration package of all employees is reviewed based on their work performance, experience and current market level.

The Group organises team-building events for its staff regularly and continues to provide training for new and existing staff to enhance technical and safety knowledge as well as knowledge of industry quality standards. The Group also provides fire safety training to its production staff regularly. The directors of the Company (the “**Directors**”) believe such initiatives have contributed to the increase in employee productivity and enhanced cohesiveness of the Group.

The Company has also adopted a share option scheme on 2 December 2020 (“**Share Option Scheme**”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

On 14 January 2022, the Company has granted a total of 214,836,300 share options to the Grantees, being the external consultants of the Group, under the Share Option Scheme for the purpose of expanding the smart furniture business segment of the Group. Please refer to the announcements of the Company dated 14 January 2022 and 12 May 2022 for further details.

BUSINESS OUTLOOK

Looking ahead to the second half of 2023, as the interest rate hike cycle in the European and American developed countries enters the final stage, the real estate market will stabilize and the furniture market will soon bottom out, thus creating a favorable external environment for the Group.

We will continue to uphold our business strategy to continuously explore markets outside the U.S., establish strong relationship with new customers, and continually strengthen the ODM capabilities. We will also solidify our core competitiveness, and continuously enhance our market share to achieve long-term sound development of business.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board does not recommend to declare any interim dividend for the Reporting Period (Six months ended 30 June 2022: Nil).

EVENTS AFTER THE REPORTING PERIOD

On 21 June 2023, the Company received a winding-up petition against the Company (the “**Petition**”) filed by Transpac Investment Management Limited (the “**Petitioner**”) at the High Court of the Hong Kong Special Administrative Region (the “**Court**”) in relation to the Company’s non-payment of the consultancy fees to the Petitioner in a total amount of HK\$7,500,000. The Petition was originally planned to be heard before the Court on 6 September 2023. The Company is seeking legal action against the Petition firmly and is taking all necessary actions to protect the legal rights of the Company. On 28 July 2023, the Company instructed its legal representative to issue a letter to the Petitioner, disputing the alleged debt stated in the Petition and urging them to withdraw the Petition immediately, failing which the Company would oppose the Petition rigorously and seek costs against the Petitioner on an indemnity basis.

In the meantime, the Company has instructed its legal representative to prepare an affidavit in opposition.

On 25 August 2023, the Company was informed by the legal representative of the Petitioner that they were still taking steps to advertise the Petition in the Gazette and the newspapers before the Hearing as prescribed by rule 24 of the Companies (Winding-up) Rules (Chapter 32H of the laws of Hong Kong). In the circumstances, the Company agreed to adjourn the Hearing by way of consent summons, and the hearing of the Petition has been adjourned to 18 October 2023 at 10:30 a.m. by order of the Court.

Save as disclosed above, there are no other important events affecting the Group which have occurred after the Reporting Period and up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the Reporting Period and up to the date of this report.

OTHER INFORMATION

USE OF PROCEEDS FROM GLOBAL OFFERING

The shares of the Company (the “**Shares**”) were listed on the Main Board of the Stock Exchange 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 were 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 for the use of net proceeds as detailed and defined in the prospectus of the Company dated 14 December 2020 (the “**Prospectus**”):

	Net proceeds		Amount utilised as of 30 June 2023	Amount unutilised as at 30 June 2023	Expected date for fully utilising the unutilised proceeds
	(HK\$ million)	Percentage	(HK\$ million)	(HK\$ million)	
Establishing new factory compartments for the manufacturing of panel furniture and upholstered furniture	636	45.4%	575	61	On or before 31 December 2023 <i>(Note 1)</i>
Construction of the second phase of the factory of the Group located in Nankang, Ganzhou, Jiangxi Province of the PRC	463	33.0%	14	449	On or before 30 June 2024 <i>(Note 2)</i>
Upgrading the production line in the current production facilities by acquiring more advanced and automated machineries and equipment for the furniture factory of the Group	70	5.0%	70	—	Not applicable
Enhancing the product design, research and development capabilities of the Group	93	6.6%	82	11	On or before 31 December 2023 <i>(Note 3)</i>
General replenishment of working capital and other general corporate purpose	140	10.0%	140	—	Not applicable
Total	1,402	100.0%	881	521	

Note 1: As of the date of this report, the Board is aware that there has been a delay in the expected timeline for the use of proceeds when compared to the implementation plan as stated in the Prospectus. The delay in the use of proceeds was mainly attributable to the delay in the construction of new factory due to the land leveling work, the complex planning process and construction procedures and the time-consuming process for making application to and obtaining approval from the local government previously, and the delay in the construction of new factory also resulted in the delay in the procurement of machinery and equipment.

Note 2: The slow negotiation and approval process of the land of Nankang Phase II Factory with the PRC government, therefore the construction of the second phase of the new factory has been delayed.

Note 3: The delay in the use of proceeds on some research and development projects is due to the Company’s different priorities in the timing of different research and development projects.

The unutilised net proceeds of the Group are being kept in banks and authorised financial institutions in Hong Kong and the People’s Republic of China (the “**PRC**”).

OTHER INFORMATION

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

As at 30 June 2023, the interests or short positions of the Directors or chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), as recorded in the register kept under Section 352 of the 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 (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) were as follows:

Name of Director	Capacity	Number of Ordinary Shares <i>(Note 1)</i>	Percentage of the Issued Shares
Mr. Zeng Ming (“ Mr. Zeng ”)	Interest of controlled corporation	2,045,750,000 (L) <i>(Note 2)</i>	66.65%

Notes:

1. The letter “L” denotes the Director’s long position in the Shares 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.

Save as disclosed above, as at 30 June 2023, 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.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2023, 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 of Ordinary Shares <i>(Note 1)</i>	Percentage of the Issued Shares
Pure Cypress Limited	Beneficial owner	2,045,750,000 (L) <i>(Note 2)</i>	66.65%
Mr. Zeng	Interest of controlled corporation	2,045,750,000 (L) <i>(Note 2)</i>	66.65%
Ms. Zeng Ronghua ("Ms. Zeng RH")	Interest of spouse	2,045,750,000 (L) <i>(Note 3)</i>	66.65%

Notes:

- The letter "L" denotes the shareholder's long position in the Shares.
- 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.
- 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 in.

Save as disclosed above, as at 30 June 2023, 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 Securities" in this report, no person had any interests or short positions in any Shares or underlying Shares of the Company which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

OTHER INFORMATION

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 to the growth of the Group are eligible to participate in the Share Option Scheme.

Details of the Company’s outstanding share options granted under the Share Option Scheme during the Reporting Period were as follows:

Category of participants	Date of grant	Exercise period (Note 1)	Exercise price per Share (HK\$)	Outstanding	During the Reporting Period				Outstanding
				as at 1 January 2023	Granted	Exercised	Cancelled	Lapsed	as at 30 June 2023
External consultant									
Empire Core Limited	14 January 2022	16 January 2023 to 14 January 2026	1.878	10,230,300	—	—	—	—	10,230,300
	14 January 2022	15 January 2024 to 14 January 2026	1.878	10,230,300	—	—	—	—	10,230,300
	14 January 2022	14 January 2025 to 14 January 2026	1.878	10,230,300	—	—	—	—	10,230,300
東莞市華太投資諮詢服務有限公司 Dongguan Huatai Investment Consulting Service Co., Ltd.*	14 January 2022	16 January 2023 to 14 January 2026	1.878	10,230,300	—	—	—	—	10,230,300
	14 January 2022	15 January 2024 to 14 January 2026	1.878	10,230,300	—	—	—	—	10,230,300
	14 January 2022	14 January 2025 to 14 January 2026	1.878	10,230,300	—	—	—	—	10,230,300

OTHER INFORMATION

Category of participants	Date of grant	Exercise period (Note 1)	Exercise price per Share (HK\$)	Outstanding	During the Reporting Period				Outstanding
				as at 1 January 2023	Granted	Exercised	Cancelled	Lapsed	as at 30 June 2023
赣州橙木科技有限公司 Ganzhou Cheng Wood Technology Co., Ltd.*	14 January 2022	16 January 2023 to 14 January 2026	1.878	10,230,300	—	—	—	—	10,230,300
	14 January 2022	15 January 2024 to 14 January 2026	1.878	10,230,300	—	—	—	—	10,230,300
	14 January 2022	14 January 2025 to 14 January 2026	1.878	10,230,300	—	—	—	—	10,230,300
Cloud Mount Limited 雲登有限公司	14 January 2022	From the Relevant Vesting Date to 14 January 2026 (Note 2)	1.878	30,690,900	—	—	—	—	30,690,900
Dragon Win Corporation 龍盈有限公司	14 January 2022	From the Relevant Vesting Date to 14 January 2026 (Note 2)	1.878	30,690,900	—	—	—	—	30,690,900
Aster Blossom Limited	14 January 2022	From the Relevant Vesting Date to 14 January 2026 (Note 2)	1.878	30,690,900	—	—	—	—	30,690,900
Top Easeway Limited	14 January 2022	From the Relevant Vesting Date to 14 January 2026 (Note 2)	1.878	30,690,900	—	—	—	—	30,690,900
Total				214,836,300	—	—	—	—	214,836,300

* For identification purpose only

OTHER INFORMATION

Notes:

- 1) The vesting period of the share options granted under the Share Option Scheme is from the date of grant until the commencement of the exercise period. The vesting of the share options is subject to the fulfilment of certain vesting conditions. Please refer to the announcements of the Company dated 14 January 2022 and 12 May 2022 for further details of the vesting conditions.
- 2) Relevant vesting date ("**Relevant Vesting Date**") means the day immediately after the vesting condition as prescribed being fully satisfied (or if such day is not a business day, the business day immediately after such day).
- 3) The total number of Shares that may be issued in respect of options and awards granted under all schemes of the Company during the Reporting Period divided by the weighted average number of Shares of the relevant class in issue (i.e. 3,069,090,000 Shares) for the Reporting Period was 7%. The total number of options available for grant under the Share Option Scheme was 85,163,700 at the beginning and the end of the Reporting Period.

For the fair value of the options granted under the Share Option Scheme during the Reporting Period, please refer to note 20 (share-based payment transactions) to the Condensed Consolidated Financial Statements. Save as disclosed above, no other share options have been granted, exercised, cancelled or lapsed under the Share Option Scheme during the Reporting Period.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices and procedures. The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Listing Rules. The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code throughout the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. After specific enquiry made by the Company, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct of the Company governing the Directors' securities transactions throughout the Reporting Period.

SUFFICIENT OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as of the date of this report, the Company maintained the prescribed public float of no less than 25% as required under the Listing Rules.

OTHER INFORMATION

AUDIT COMMITTEE

The Company has established the audit committee (the “**Audit Committee**”) which comprises three independent non-executive Directors, namely Mr. Suen To Wai, Mr. Feng Zhaowei and Ms. Zhang Lingling. Mr. Suen To Wai is the chairman 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.

REVIEW OF FINANCIAL STATEMENTS

The interim results have been reviewed by the Audit Committee and the management of the Company with no disagreement thereon. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed the risk management, internal control and financial reporting matters for the Reporting Period.

CHANGES IN BOARD COMPOSITION

Save as disclosed in this interim report, no other information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

On behalf of the Board

Zeng Ming

Chairman

Hong Kong, 30 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	5	1,482,052	1,963,224
Cost of sales		(1,286,146)	(1,555,553)
Gross profit		195,906	407,671
Other revenue		29,017	16,470
Other gains and losses		58,170	60,485
Distribution and selling expenses		(29,949)	(40,519)
Administrative expenses		(63,349)	(75,140)
Equity settled share-based payment expenses		—	(9,104)
Reversal of impairment loss recognised on trade receivables, net		3,533	2,598
Finance costs	6	(9,612)	(13,340)
Profit before income tax expense	7	183,716	349,121
Income tax expense	8	(22,757)	(51,113)
Profit and total comprehensive income for the period		160,959	298,008
Total comprehensive income for the period attributable to:			
Owner of the Company		161,328	298,008
Non-controlling interest		(369)	—
Profit and total comprehensive income for the period		160,959	298,008
Earnings per share — Basic and diluted (RMB cents)	10	5.3	9.7

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 June 2023

	Notes	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	1,547,654	1,271,395
Right-of-use assets	12	57,450	60,218
Prepayments for acquisition of intangible assets, land use right and property, plant and equipment	15	842,339	96,771
Deferred tax assets		1,981	6,780
Prepayments for acquisition of a company		57,337	—
Intangible assets		10,800	12,000
Total non-current assets		<u>2,517,561</u>	<u>1,447,164</u>
Current assets			
Inventories	13	1,061,773	1,041,808
Trade receivables	14	1,310,628	773,158
Prepayments, deposits and other receivables	15	139,099	136,153
Time deposits		—	800,000
Cash and cash equivalents		924,584	1,505,808
Total current assets		<u>3,436,084</u>	<u>4,256,927</u>
Total assets		<u>5,953,645</u>	<u>5,704,091</u>
Current liabilities			
Trade payables	16	297,557	188,720
Other payables and accruals	16	40,213	51,095
Borrowings	17	316,300	293,819
Lease liabilities	12	10,171	10,171
Income tax payable		15,937	5,457
Total current liabilities		<u>680,178</u>	<u>549,262</u>
Net current assets		<u>2,755,906</u>	<u>3,707,665</u>
Total assets less current liabilities		<u>5,273,467</u>	<u>5,154,829</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 June 2023

	<i>Notes</i>	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Non-current liabilities			
Borrowings	17	60,000	100,000
Lease liabilities	12	934	3,255
Total non-current liabilities		60,934	103,255
NET ASSETS		5,212,533	5,051,574
Capital and reserves attributable to owners of the Company			
Share capital	18	259,018	259,018
Reserves		4,951,316	4,789,988
		5,210,334	5,049,006
Non-controlling interests		2,199	2,568
TOTAL EQUITY		5,212,533	5,051,574

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Share capital	Capital reserve	Share premium	Share option reserve	Statutory reserve	Merger reserve	Retained earnings	Total equity attributable to shareholders of parent Company	Total equity attributable to minority	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2022 (audited)	259,018	92,425	656,736	—	381,574	27,594	3,296,045	4,713,392	—	4,713,392
Profit for the period	—	—	—	—	—	—	298,008	298,008	—	298,008
Transfer from retained earnings to statutory reserve	—	—	—	—	18,052	—	(18,052)	—	—	—
Dividend declared by the Company	—	—	—	9,104	—	—	—	9,104	—	9,104
Exercise of the over-allotment option in relation to initial public offer (Note 18)	—	—	—	—	—	—	—	—	—	—
As at 30 June 2022 (unaudited)	259,018	92,425	656,736	9,104	399,626	27,594	3,576,001	5,020,504	—	5,020,504
Balance as at 1 January 2023 (audited)	259,018	92,425	656,736	714	401,395	27,594	3,611,124	5,049,006	2,568	5,051,574
Profit for the period	—	—	—	—	—	—	161,328	161,328	(369)	160,959
Transfer from retained earnings to statutory reserve	—	—	—	—	6,560	—	(6,560)	—	—	—
Equity settled share-based transactions	—	—	—	—	—	—	—	—	—	—
As at 30 June 2023 (unaudited)	259,018	92,425	656,736	714	407,955	27,594	3,765,892	5,210,334	2,199	5,212,533

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cash flows from operating activities		
Profit before income tax expense	183,716	349,121
Adjustments for:		
Depreciation of property, plant and equipment	59,175	54,600
Depreciation of right-of-use assets and intangible assets	3,968	2,429
Finance costs	9,612	13,340
Interest income	(5,446)	(9,684)
Reversal of impairment loss recognised on trade receivables, net	(3,533)	(2,598)
Reversal of impairment loss recognized on inventories, net	(28,402)	—
Equity settled share-based payment expenses	—	9,104
Operating profits before working capital changes	219,090	416,312
Decrease/(increase) in inventories	8,437	(25,976)
(Increase)/decrease in trade receivables	(533,937)	492,592
(Increase)/decrease in prepayments, deposits and other receivables	(2,946)	11,805
Increase/(decrease) in trade payables	108,837	(136,553)
Decrease in other payables and accruals	(10,882)	(38,364)
Cash (used in)/generated from operations	(211,401)	719,816
Income tax paid	(7,478)	(62,082)
Net cash (used in)/generated from operating activities	(218,879)	657,734
Cash flows from investing activities		
Purchases of property, plant and equipment	(335,434)	(115,422)
Prepayments paid for acquisition of intangible assets and property, plant and equipment	(745,568)	(2,454)
Acquisition of the company Bashen	(57,337)	—
Acquisition of land use right	—	(4,188)
Decrease/(increase) in time deposits	800,000	(800,000)
Interest received	5,446	4,201
Net cash used in investing activities	(332,893)	(917,863)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cash flows from financing activities		
Repayment of principal portion of the lease liabilities	(2,321)	(7,496)
Proceeds from borrowings	63,400	72,800
Repayment of borrowings	(80,784)	(151,156)
Interest paid	(9,747)	(13,060)
Security deposits paid for borrowings	—	(4,543)
Net cash used in financing activities	<u>(29,452)</u>	<u>(103,455)</u>
Net decrease in cash and cash equivalents	(581,224)	(363,584)
Cash and cash equivalents at the beginning of period	<u>1,505,808</u>	<u>3,137,071</u>
Cash and cash equivalents at the end of period	<u>924,584</u>	<u>2,773,487</u>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	<u>924,584</u>	<u>2,773,487</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. GENERAL INFORMATION

Huisen Household International Group Limited (the “**Company**”) was incorporated in the Cayman Islands 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 (the “**Stock Exchange**”).

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, is principally engaged in manufacturing and selling of panel-type furniture, hardware furniture and furniture ornaments.

2. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). These condensed consolidated financial statements were authorised for issue on 30 August 2023.

These condensed consolidated financial statements have been prepared with the same accounting policies adopted in the Group’s consolidated financial statements for the year ended 31 December 2022 (the “**2022 Annual Financial Statements**”), except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2023. Details of changes in accounting policies, and their effect on these condensed consolidated financial statements, are set out in Note 3.

The preparation of these condensed consolidated financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. There have been no material revisions to the nature and amount of estimates of amounts reported in prior periods. The details are disclosed in Note 4.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

2. BASIS OF PREPARATION (CONTINUED)

These condensed consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated. These condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group for the Reporting Period. These condensed consolidated financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the “**HKFRS**”) and should be read in conjunction with the 2022 Annual Financial Statements.

These condensed consolidated interim financial statements are unaudited.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis. These condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2022 Annual Financial Statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2023.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial period beginning on 1 January 2023.

HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts
Amendment to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendment to HKAS 8	Definition of Accounting Estimates
Amendment to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendment to HKAS 12	International Tax Reform — Pillar Two Model Rules

The new and revised standards, amendments and interpretations that are effective from 1 January 2023 did not have significant impact on the Group’s accounting policies.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

The following amendments to HKAS and HKFRS, potentially relevant to the Group's condensed consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 1 Hong Kong Interpretation 5 (Revised)	Classification of Liabilities as Current or Non-current ¹ Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ¹
Amendments to HKAS 1 Amendments to HKFRS 16 Amendments to HKAS 7 and HKFRS 7 Amendments to HKFRS 10 and HKAS 28	Non-current Liabilities with Covenant ¹ Lease liability in a Sales and Leaseback ¹ Supplier Finance Arrangements ¹ Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²

¹ Effective for annual periods beginning on or after 1 January 2024.

² Effective for annual periods beginning on or after a date to be determined.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2022 annual financial statements.

5. REVENUE AND SEGMENT INFORMATION

Operating segments

The Group was principally engaged in manufacturing and selling of panel furniture, hardware furniture and furniture ornaments. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole, as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, the Group has only one business segment and no further analysis of this single segment is considered necessary.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
United States of America (the "United States" or "U.S.")	887,552	1,271,574
PRC	99,993	115,597
Canada	47,532	48,379
Singapore	47,512	59,083
Vietnam	45,717	45,622
Malaysia	45,086	54,035
United Kingdom	15,239	20,292
France	13,970	20,342
Germany	13,925	15,224
Japan	13,425	16,087
Thailand	12,311	17,321
Netherlands	11,811	13,562
Korea	11,105	15,710
Philippines	10,078	19,573
Other locations	206,796	230,823
	<u>1,482,052</u>	<u>1,963,224</u>

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 30 June 2023 and 31 December 2022, all of the Group's non-current assets are located in the PRC.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)**Geographical information (Continued)**

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

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Panel-type furniture	1,405,459	1,854,640
Upholstered furniture	37,846	53,740
Sport-type furniture	38,554	53,920
Other	193	924
	<u>1,482,052</u>	<u>1,963,224</u>
Timing of revenue recognition		
At a point in time	1,482,052	1,963,224
Transferred over time	—	—
	<u>1,482,052</u>	<u>1,963,224</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest expenses on bank and other borrowings	9,601	13,060
Interest expenses on lease liabilities	11	280
	<u>9,612</u>	<u>13,340</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

7. PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories recognised as expenses	1,286,146	1,555,553
Depreciation charge:		
— Owned property, plant and equipment	59,175	54,600
— Intangible assets	1,200	—
— Right-of-use assets	2,768	2,429
	63,143	57,029
Research and development costs	27,576	20,934
Reversal of impairment loss recognised on trade receivables, net	(3,533)	(2,598)

8. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax — PRC Enterprise Income Tax (the “ PRC EIT ”)		
— For the period	17,866	50,631
— Under provision in prior periods	92	95
	17,958	50,726
Deferred tax		
— For the period	4,799	387
Income tax expense	22,757	51,113

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2023***8. INCOME TAX EXPENSE (CONTINUED)**

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.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

According to the Announcement of No. 13 (2019) issued by the Ministry of Finance and the State Taxation Administration of the PRC, "Implementing the inclusive tax deduction and exemption policies for micro and small enterprises", for one of the subsidiaries of the Group located in the PRC, if its annual taxable profits do not exceed RMB1 million, only 25% of such amount is taxable with a tax rate of 20%; while if its annual taxable profits do exceed RMB1 million but less than RMB3 million, only 50% of such amount is taxable with a tax rate of 20%. However, if its annual taxable profits do exceed RMB3 million, the whole amount will be taxable at a tax rate of 25%.

And supplemented with the Announcement of No. 12 (2021) issued by the Ministry of Finance and the State Taxation Administration of the PRC, "Implementing the preferential income tax policies for micro and small enterprises and individual industrial and commercial households", for the period from 1 January 2021 to 31 December 2022, if its annual taxable profits do not exceed RMB1 million, only 12.5% of such amount is taxable at 20%; while if its annual taxable profits do exceed RMB1 million but less than RMB3 million, only 50% of such amount is taxable with a tax rate of 20%. However, if its annual taxable profits do exceed RMB3 million, the whole amount will be taxable at the tax rate of 25%. Pursuant to Announcement of the Ministry of Finance and the State Taxation Administration on the Implementation of Preferential Income Tax Policies for Micro and Small Enterprises and Individual Industrial and Commercial Households (《財政部稅務總局關於小微企業和個體工商戶所得稅優惠政策的公告》) (Announcement No. 6 [2023] of the Ministry of Finance and the State Taxation Administration), from 1 January 2023 to 31 December 2024, for the portion of annual taxable income exceeding RMB1 million, 25% of the amount will be reduced, and the Enterprise Income Tax will be paid at the tax rate of 20%.

Pursuant to the income tax rules and regulations of the PRC, the provision for the PRC EIT of the PRC subsidiaries of the Group located in the West Regions is calculated on the basis of the preferential tax rate of 15% as they are recognised as the enterprises of Development of the West Regions according to the tax regulations of the PRC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

8. INCOME TAX EXPENSE (CONTINUED)

The amount of taxation can be reconciled to the profit before income tax expense per the condensed consolidated statements of profit or loss and the comprehensive income as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before income tax expense	183,716	349,121
Tax calculated at the PRC EIT statutory tax rate of 25%	45,929	87,280
Revenue not taxable for tax purposes	—	(486)
Expenses not deductible for tax purposes	416	1,935
Effect of tax preferential rates granted to the eligible PRC subsidiaries	(13,926)	(33,785)
Different tax rates applied to relevant tax laws	(7,615)	(6,834)
Utilisation of unrecognised temporary difference	—	(3)
Tax losses/temporary difference not recognised	3,099	3,329
Utilisation of unrecognised tax losses	(5,238)	(418)
Under/(over) provision in respect of prior periods	92	95
	22,757	51,113

9. DIVIDENDS

No interim dividend in respect of the six months ended 30 June 2023 has been proposed by the Directors (Six months ended 30 June 2022: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Profit for the period attributable to owners of the Company for the purpose of computation of basic and diluted earnings per share (RMB'000)	<u>161,328</u>	<u>298,008</u>
Weighted average number of ordinary shares for the purpose of computation of basic and diluted earnings per share	<u>3,069,090,000</u>	<u>3,069,090,000</u>
Basic and diluted earnings per share (RMB cents)	<u><u>5.3</u></u>	<u><u>9.7</u></u>

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by weighted average number of ordinary shares in issue during the Reporting Period.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the Reporting Period included the weighted average number of shares pursuant to exercise of the over-allotment option of 69,090,000 shares (Note 18) and 3,000,000,000 shares issued throughout the year ended 31 December 2020.

Diluted earnings per share was the same as basic earnings per share as the impact of share options had an anti-dilutive effect for the Reporting Period.

Diluted earnings per share was the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding for the six months ended 30 June 2023.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group incurred expenditure of RMB335,434,000 during the Reporting Period (Six months ended 30 June 2022: RMB115,422,000) on property, plant and equipment to expand and upgrade the Group's manufacturing facilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES**Right-of-use assets**

	Land use right	Showroom and warehouse	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2022 (audited)	42,663	3,817	46,480
Additions	12,181	7,092	19,273
Depreciation for the year	<u>(1,642)</u>	<u>(3,893)</u>	<u>(5,535)</u>
As at 31 December 2022 (audited)	53,202	7,016	60,218
Depreciation for the period	<u>(822)</u>	<u>(1,946)</u>	<u>(2,768)</u>
As at 30 June 2023 (unaudited)	<u>52,380</u>	<u>5,070</u>	<u>57,450</u>

The interest of land use right in the PRC are prepaid upon acquisition. The Group amortises the cost of the land use right based on an estimated lease period of 50 years.

The Group also had leased properties in the United States. The rental agreement is signed for a fixed period of 2 years for the warehouse and 5 years for the showroom. Both rental agreements do not impose any restriction or covenant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

Lease Liabilities

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Within one year	10,171	10,171
More than one year, but not exceeding two years	456	2,920
More than two years, but not exceeding five years	478	335
	<u>11,105</u>	<u>13,426</u>
Analysed as:		
Current portion	10,171	10,171
Non-current portion	934	3,255
	<u>11,105</u>	<u>13,426</u>

13. INVENTORIES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Raw materials	478,116	574,139
Work-in-progress	7,771	5,714
Finished goods	575,886	490,357
	<u>1,061,773</u>	<u>1,070,210</u>
Less: Provision for impairment of inventories	—	(28,402)
	<u>1,061,773</u>	<u>1,041,808</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

14. TRADE RECEIVABLES

The Group's trading term with customers are mainly on credit. The credit terms are generally 0 to 150 days.

An ageing analysis, based on the invoice dates, as of 30 June 2023 and 31 December 2022 is as follows:

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Within 1 month	313,889	164,944
1 to 2 months	308,267	142,312
2 to 3 months	276,511	179,986
Over 3 months	425,246	302,734
	1,323,913	789,976
Less: Allowance for doubtful debts	(13,285)	(16,818)
	1,310,628	773,158

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Current			
Prepayments		82	3,122
Value added tax recoverable		138,851	113,920
Interest receivables		—	13,952
Other receivables	(b)	166	5,159
		139,099	136,153
Non-current			
Prepayments for acquisition of intangible assets, land use right and property, plant and equipment		842,339	96,771
		842,339	96,771
	(a)	981,438	232,924

Notes:

- (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 (31 December 2022: Nil).
- (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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

16. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Trade payables	<u>297,557</u>	<u>188,720</u>

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Within 6 months	<u>297,557</u>	<u>188,720</u>

Other payables and accruals as at 30 June 2023 represented other payables of RMB3,462,000 (31 December 2022: RMB11,415,000), accruals of RMB32,031,000 (31 December 2022: RMB38,088,000), and other tax payables of RMB4,720,000 (31 December 2022: RMB1,592,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

17. BORROWINGS

	Notes	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Current			
Bank loans due for repayment within one year	(a), (b)	316,300	292,300
Other loans	(c)	—	1,519
		<u>316,300</u>	<u>293,819</u>
Non-current			
Bank loans	(a), (b)	60,000	100,000
		<u>60,000</u>	<u>100,000</u>
Total borrowings		<u>376,300</u>	<u>393,819</u>

Notes:

- (a) The bank loans are secured by:
- (i) the Group's certain buildings and machineries included in property, plant and equipment amounted to RMB405,933,000 (unaudited) (31 December 2022: RMB389,724,000 (audited));
 - (ii) corporate guarantee given by a non-related party, in which machineries included in property, plant and equipment amounted to RMB64,678,000 (unaudited) (31 December 2022: RMB46,324,000 (audited)) are pledged to this non-related party;
 - (iii) registered capital of Huisen Holding Investment (Ganzhou) Co., Limited amounted to US\$21,000,000 (unaudited) (31 December 2022: US\$21,000,000 (audited));
 - (iv) land use right under right-of-use assets amounted to RMB19,656,000 (unaudited) (31 December 2022: RMB21,358,000 (audited)); and
 - (v) corporate guarantee given by a non-related party, in which land use right under right-of-use assets amounted to RMB1,255,000 (unaudited) (31 December 2022: RMB0 (audited)) are pledged to this non-related party.
- (b) Interest is charged at fixed/floating effective interest rates ranging from 3.40% to 7.40% (unaudited) per annum ("p.a.") (31 December 2022: 3.40% to 7.60% p.a. (audited)).
- (c) Other loans have been fully repaid during the Reporting Period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

18. 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 2022 (audited), 31 December 2022 (audited) and 30 June 2023 (unaudited)	<u>10,000,000</u>	<u>1,000,000</u>	<u>844,130</u>
Issued and fully paid			
As at 1 January 2022 (audited), 31 December 2022 (audited) and 30 June 2023 (unaudited)	<u>3,069,090</u>	<u>306,909</u>	<u>259,018</u>

19. FINANCIAL INSTRUMENTS**Fair value*****Financial instruments not measured at fair value***

Financial instruments not measured at fair value include cash and cash equivalents, trade receivables, other receivables, trade payables, lease liabilities, other payables and accruals and borrowings.

Due to their short term nature, the carrying value of cash and cash equivalents, trade receivables, other receivables, trade payables 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 30 June 2023 and 31 December 2022.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

20. SHARE-BASED PAYMENT TRANSACTIONS

On 14 January 2022, the Company granted share options to seven eligible participants (the “**Grantees**”, being external consultants of the Group), an aggregate of 214,836,300 share options (each share option shall entitle the holder of the share option to subscribe for one Share), as to 30,690,900 share options to each Grantee and the exercise price of share options granted was HK\$1.878 to subscribe for one ordinary share of HK\$0.10 each in the share capital of the Company.

	2023	
	Weighted average exercise price HK\$	Number
Outstanding at 1 January	1.878	214,836,300
Granted during the period	—	—
Forfeited during the period	—	—
Exercised during the period	—	—
Lapsed during the period	—	—
	<hr/>	<hr/>
Outstanding at 30 June	1.878	214,836,300

Among the total number of share options outstanding for the Reporting Period, no options had been exercised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

21. RELATED PARTY DISCLOSURES**Compensation of key management personnel**

The remuneration of the Directors and other members of key management during the periods was as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	263	328
Salaries and other benefits	1,398	1,390
Contributions to retirement benefits scheme	30	28
	1,691	1,746

22. EVENTS AFTER REPORTING PERIOD

On 21 June 2023, the Company received a winding up petition (the “**Petition**”) filed in the High Court of the Hong Kong Special Administrative Region (the “**Court**”) by Transpac Investment Management Limited (the “**Petitioner**”) against the Company in respect of the Company’s non-payment of consultant’s fees to the Petitioner in the total amount of HK\$7,500,000. The Petition was originally planned to be heard on 6 September 2023 before the Court. The Company is seeking legal measures to strongly oppose the Petition and is taking all necessary actions to protect the Company’s legal rights. On 28 July 2023, the Company instructed its legal representatives to send a letter to the Petitioner disputing the alleged liabilities described in the Petition and urging it to immediately withdraw the Petition, failing which the Company will vigorously defend the Petition and seek costs from the Petitioner on an indemnity basis.

In the meantime, the Company has instructed its legal representatives to prepare an Affidavit of Objection.

On 25 August 2023, the Company was informed by the legal representative of the Petitioner that they were still taking steps to advertise the Petition in the Gazette and the newspapers before the Hearing as prescribed by rule 24 of the Companies (Winding-up) Rules (Chapter 32H of the laws of Hong Kong). In the circumstances, the Company agreed to adjourn the Hearing by way of consent summons, and the hearing of the Petition has been adjourned to 18 October 2023 at 10:30 a.m. by order of the Court.

Save as disclosed above, there have been no other material events affecting the Group after the reporting period and up to the date of this report.