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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

- The revenue of Huisen Household International Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2023 (“**FY2023**”) was approximately RMB3,641 million representing an increase of approximately 20.75% as compared to approximately RMB3,015 million for the year ended 31 December 2022 (“**FY2022**”).
- The profit for FY2023 was approximately RMB203 million representing a decrease of approximately 39.30% as compared to approximately RMB334 million for FY2022, which was mainly due to the impact of trade tariffs between China and the United States. As a result, the gross profit margin declined, which resulted in the decline in net profit.
- Basic and diluted earnings per share of the Company (the “**Share**”) was RMB6.75 cents for FY2023 and RMB10.91 cents for FY2022.
- The board of directors of the Company (the “**Board**”) did not recommend the payment of final dividend for FY2023 (FY2022: Nil).

CONSOLIDATED ANNUAL RESULT FOR THE YEAR ENDED 31 DECEMBER 2023

The Board is pleased to announce the consolidated results of the Group for FY2023 together with the comparative figures for FY2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
Revenue	5	3,640,712	3,015,191
Cost of sales		<u>(3,157,399)</u>	<u>(2,470,417)</u>
Gross profit		483,313	544,774
Other revenue		15,430	32,260
Other gains and losses	6	44,778	74,753
Other expense		(8,940)	–
Distribution and selling expenses		(73,658)	(66,868)
Administrative expenses		(145,412)	(159,305)
Equity-settled share-based payment expenses		–	(714)
Provision for impairment loss recognised on trade receivables, net		(42,970)	(9,938)
Finance costs	7	<u>(23,196)</u>	<u>(24,971)</u>
Profit before income tax expense	8	249,345	389,991
Income tax expense	9	<u>(46,338)</u>	<u>(55,523)</u>
Profit and total comprehensive income for the year		<u>203,007</u>	<u>334,468</u>
Attributable to:			
Owners of the Company		207,103	334,900
Non-controlling interests		<u>(4,096)</u>	<u>(432)</u>
		<u>203,007</u>	<u>334,468</u>
Earnings per share for profit attributable to the shareholders of the Company			
– Basic and diluted (<i>RMB cent</i>)	11	<u>6.75</u>	<u>10.91</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	<i>12</i>	2,593,335	1,271,395
Right-of-use assets		55,050	60,218
Investment properties		161,162	–
Intangible assets		129,730	12,000
Goodwill		106,122	–
Interest in an associate		–	–
Prepayments for acquisition of property, plant and equipment and intangible assets		339,824	96,771
Deferred tax assets		6,688	6,780
Total non-current assets		<u>3,391,911</u>	<u>1,447,164</u>
Current assets			
Inventories	<i>13</i>	877,757	1,041,808
Trade receivables	<i>14</i>	1,526,525	773,158
Prepayments, deposits and other receivables		247,738	136,153
Pledged bank deposits		114,010	–
Short-term bank deposits		13,000	800,000
Cash and bank balances		463,355	1,505,808
Total current assets		<u>3,242,385</u>	<u>4,256,927</u>
Total assets		<u>6,634,296</u>	<u>5,704,091</u>
Current liabilities			
Trade and bills payables	<i>15</i>	434,071	188,720
Other payables and accruals		83,957	51,095
Borrowings		733,596	293,819
Lease liabilities		2,920	10,171
Income tax payable		16,362	5,457
Total current liabilities		<u>1,270,906</u>	<u>549,262</u>
Net current assets		<u>1,971,479</u>	<u>3,707,665</u>
Total assets less current liabilities		<u><u>5,363,390</u></u>	<u><u>5,154,829</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – Continued
AS AT 31 DECEMBER 2023

	<i>Note</i>	2023 RMB'000	2022 <i>RMB'000</i>
Non-current liabilities			
Borrowings		90,000	100,000
Lease liabilities		335	3,255
Deferred tax liabilities		18,474	–
Total non-current liabilities		108,809	103,255
NET ASSETS		5,254,581	5,051,574
Capital and reserves attributable to owners of the Company			
Share capital	<i>16</i>	259,018	259,018
Reserves		4,997,091	4,789,988
		5,256,109	5,049,006
Non-controlling interests		(1,528)	2,568
TOTAL EQUITY		5,254,581	5,051,574

1 CORPORATE 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 are 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**”). In the opinion of the directors of the Company, the Company’s ultimate holding company is Pure Cypress Limited which is 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. The Company and its subsidiaries collectively referred to as the “**Group**”. The principal activities of its subsidiaries are principally engaged in (i) manufacturing and selling of panel-type furniture, hardware furniture and furniture ornaments; and (ii) providing information technology solution services to furniture manufacturers in the PRC.

2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2023. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards (“**HKAS**”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

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 (“**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 SEGMENT INFORMATION

Operating segments

The Group was principally engaged in (i) manufacturing and selling of panel-type furniture, hardware furniture and furniture ornaments; and (ii) providing information technology solution services to furniture manufacturers in the PRC. 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. The Group’s information technology solution services do not meet any quantitative thresholds for determining reportable segments. Accordingly, the Group has only one reportable segment and no further analysis of this single reportable segment is considered necessary.

4 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	
	2023	2022
	RMB'000	RMB'000
The United States of America (the “United States” or “U.S.”)	2,290,770	1,841,591
The PRC	244,574	215,891
Singapore	103,961	89,868
Malaysia	99,196	83,420
Vietnam	99,718	78,734
Canada	100,538	81,520
Other locations	701,955	624,167
	<u>3,640,712</u>	<u>3,015,191</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 31 December 2023 and 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 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.

Information about major customers

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

	2023	2022
	RMB'000	RMB'000
Customer A	811,560	714,364
Customer B [#]	183,876	375,745
Customer C	717,509	611,236
Customer D	588,911	402,007
Customer E	489,241	417,571
	<u>2,791,097</u>	<u>2,520,923</u>

[#] Customer B did not contribute over 10% of the Group's revenue for the year ended 31 December 2023, the figure shown was for comparative disclosure purpose only.

5 REVENUE

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Panel-type furniture	3,434,603	2,821,086
Upholstered furniture	95,640	96,218
Sport-type furniture	95,407	95,932
Tailor-made furniture	241	1,955
Information technology solution services	<u>14,821</u>	<u>–</u>
	<u>3,640,712</u>	<u>3,015,191</u>
Timing of revenue recognition		
At a point in time	3,625,891	3,015,191
Transferred over time	<u>14,821</u>	<u>–</u>
	<u>3,640,712</u>	<u>3,015,191</u>

As at 31 December 2023, no transaction price was allocated to the remaining performance obligations under the Group's existing contracts (2022: Nil).

6 OTHER GAINS AND LOSSES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Exchange gains, net	32,071	80,620
Gain on disposal of interest in an associate	1	–
Gain/(loss) on disposal of property, plant and equipment	<u>12,706</u>	<u>(5,867)</u>
	<u>44,778</u>	<u>74,753</u>

7 FINANCE COSTS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest expenses on bank and other borrowings	22,836	24,429
Interest expenses on lease liabilities	<u>360</u>	<u>542</u>
	<u>23,196</u>	<u>24,971</u>

8 PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Auditors' remuneration	2,000	2,178
Cost of inventories recognised as expenses (<i>Note</i>)	3,157,399	2,442,015
Provision for impairment of inventories	–	28,402
Depreciation charge:		
– Owned property, plant and equipment (<i>Note 12</i>)	119,412	109,892
– Right-of-use-assets	5,168	5,535
– Investment properties	6,934	–
	<u>131,514</u>	<u>115,427</u>
Amortisation charge:		
– Intangible assets	7,884	–
Equity-settled share-based payments to external consultants	–	714
Research and development costs	152,602	57,318
Employee costs	<u>300,697</u>	<u>283,643</u>

Note: Cost of inventories recognised as expenses includes RMB530,852,000 (2022: RMB529,736,000) 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.

9 INCOME TAX EXPENSE

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

	2023 RMB'000	2022 RMB'000
Current tax—Enterprise Income Tax of the PRC (the “ PRC EIT ”)		
– For the year	36,695	61,179
– Under-provision in prior years	<u>83</u>	<u>95</u>
	36,778	61,274
Deferred tax		
– For the year	<u>9,560</u>	<u>(5,751)</u>
Income tax expense	<u>46,338</u>	<u>55,523</u>

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 tax rate of 16.5% (2022: 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% (2022: 25%).

According to the Announcement of No. 13 (2022) and No. 12 (2023) issued by the Ministry of Finance and the State Taxation Administration of the PRC, “Further Implementing Income Tax Preferential Policies for Small and Micro Enterprises”, for one of the subsidiaries of the Group located in the PRC, the tax rate would be at a reduced rate. For the year ended 31 December 2023, if the annual taxable profits do not exceed RMB3 million, only 25% 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%.

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 basing on the preferential tax rate of 15% (2022: 15%) as they are recognised as the enterprises of Development of the West Regions according to the tax regulations of the PRC.

Two subsidiaries of the Group established in the PRC have obtained approval from the tax bureau to be taxed as enterprises with advanced and new technologies for the calendar years from 2021 to 2023 and from 2023 to 2025, respectively, and therefore enjoy a preferential PRC Corporate Income Tax rate of 15% (2022: 15%) for the year ended 31 December 2023.

10 DIVIDENDS

No interim dividend was paid or proposed for both years.

The Board of directors does not recommend the payment of final dividend for the year ended 31 December 2023 (2022: Nil).

11 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:

	2023	2022
Profit for the year attributable to owners of the Company for the purpose of computation of basic and diluted earnings per share <i>(RMB'000)</i>	<u>207,103</u>	<u>334,900</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 <i>(RMB cent)</i>	<u><u>6.75</u></u>	<u><u>10.91</u></u>

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the years ended 31 December 2023 and 2022 included 3,069,090,000 shares issued throughout the year ended 31 December 2023 and 2022.

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 2023 and 2022.

12 PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for both years.

During the year ended 31 December 2023, the movement of property, plant and equipment was as follow:

- Assets amounted to approximately RMB1,628,997,000 (2022: approximately RMB453,210,000) were acquired; and
- Assets amounted to approximately RMB14,000 (2022: Nil) were acquired as a result of acquisition of a subsidiary; and
- Assets with a net book value of approximately RMB19,563,000 (2022: approximately RMB5,872,000) were disposed of by the Group, resulting in a net gain on disposal of approximately RMB12,706,000 (2022: net loss of approximately RMB5,867,000).

At 31 December 2023, the Group's buildings and machineries with an aggregate carrying amount of approximately RMB329,531,000 (2022: RMB389,724,000) were pledged to secure banking facilities granted to the Group.

At 31 December 2023, the Group's machineries with an aggregate carrying amount of approximately RMB60,244,000 (2022: RMB46,324,000) were pledged to a non-related party for corporate guarantee provided by the non-related party on banking facilities granted to the Group.

At 31 December 2023, no machineries (2022: RMB16,170,000) were pledged to secure other loans granted to the Group. During the year ended 31 December 2023, the other loans was fully repaid and the charge was released.

13 INVENTORIES

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	382,850	574,139
Work-in-progress	8,974	5,714
Finished goods	485,933	490,357
	877,757	1,070,210
Less: Provision for impairment of inventories	–	(28,402)
	877,757	1,041,808

14 TRADE RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	1,586,313	789,976
Less: Loss allowance	<u>(59,788)</u>	<u>(16,818)</u>
	<u>1,526,525</u>	<u>773,158</u>

The Group's trading terms with customers are mainly on credit. The credit terms are generally 30 to 150 days (2022: 30 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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 1 month	390,985	164,944
1 to 2 months	346,570	142,312
2 to 3 months	323,516	179,986
Over 3 months	<u>525,242</u>	<u>302,734</u>
	<u>1,586,313</u>	<u>789,976</u>

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
As at 1 January	16,818	6,880
Provision for impairment loss recognised on trade receivables, net	<u>42,970</u>	<u>9,938</u>
As at 31 December	<u>59,788</u>	<u>16,818</u>

As 31 December 2023, the Group's trade receivables with an aggregate carrying amounts of approximately RMB221,285,000 (2022: Nil) were pledged to secure banking facilities granted to the Group.

15 TRADE AND BILLS PAYABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade payables	263,071	188,720
Bill payables	<u>171,000</u>	<u>–</u>
	<u>434,071</u>	<u>188,720</u>

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within six months	<u>434,071</u>	<u>188,720</u>

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. The bills payables of approximately RMB114,010,000 operated in the PRC are secured by the pledged bank deposits of the Group.

16 SHARE CAPITAL

	Number <i>'000</i>	Amount <i>HK\$'000</i>	Amount <i>RMB'000</i>
Ordinary shares of par value of HK\$0.1 each			
Authorised			
As at 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	<u>10,000,000</u>	<u>1,000,000</u>	<u>844,130</u>
Issued and fully paid			
As at 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	<u>3,069,090</u>	<u>306,909</u>	<u>259,018</u>

17 ACQUISITION OF A SUBSIDIARY

On 12 May 2023, Ganzhou Huiming Wood Industry Co., Limited (an indirect wholly-owned subsidiary of the Company) as the purchaser and Ms. Qun Huang and Ms. Min Zhuo as the vendors entered into a sale and purchase agreement in respect of the acquisition of 100% equity interest of Jiangxi Bashen Data Technology Co., Ltd. (“**Jiangxi Bashen**”), a company established in the PRC with limited liability for a cash consideration of RMB191,737,000. Jiangxi Bashen was engaged in the provision of information technology solutions. The acquisition was completed on 26 September 2023.

The fair value of the identifiable assets and liabilities of Jiangxi Bashen acquired as at its date of acquisition is as follows:

	<i>RMB'000</i>
Net assets acquired:	
Property, plant and equipment	14
Intangible assets	60,200
Trade receivables	2,760
Prepayments, deposits and other receivables	72
Bank and cash balances	33,880
Trade payables	(1,118)
Other payables and accruals	(796)
Current tax liabilities	(391)
Deferred tax liabilities	<u>(9,006)</u>
	85,615
Goodwill	<u>106,122</u>
	<u><u>191,737</u></u>
Satisfied by:	
Cash	<u><u>191,737</u></u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(191,737)
Cash and cash equivalents acquired	<u>33,880</u>
	<u><u>(157,857)</u></u>

17 ACQUISITION OF A SUBSIDIARY – Continued

The goodwill arising on the acquisition of Jiangxi Bashen is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Jiangxi Bashen contributed approximately RMB14,821,000 and RMB2,838,000 to the Group's revenue and profit for the year respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2023, total Group revenue for the year would have been approximately RMB3,678,605,000, and profit for the year would have been approximately RMB231,990,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2023, nor is intended to be a projection of future results.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2023, the developed countries in Europe and America successively released the pandemic control, abolished the subsidies during the pandemic and been affected by the trade tariffs between China and United States. These factors have led to a decline in the Group's profit. In 2023, the Group's revenue increased by 20.7%, and the net profit fell by 39.3%. Despite the impact of the global economic downturn, we are still firmly optimistic of the industry, continue to increase investment in research and development, and make a better plan for the future.

In early 2022, the Russia-Ukraine war broke out, which stimulated the rise of international commodity prices. National prices of oil and food experienced alternate rises, casting a shadow over the recovery of the world economy.

The local outbreak of the pandemic in PRC hindered the smooth supply chain to a certain extent. The domestic economic growth slows down and the consumption intention of domestic resident weakens.

In the relatively difficult times, furniture export industry in PRC was affected, and the export value of furniture products and parts manufactured in PRC decreased in 2023 as compared to 2022.

Business Review

In the face of the complex situation in 2023, the Group adhered to its strategic positioning and mission, and continued to strengthen its core competitiveness. On the one hand, the Group vigorously promoted its research and development projects and continued to increase its investment in research and development to lay a solid foundation for future development; on the other hand, the Group stepped up the implementation of the fund-raising projects and continued to optimize the personnel structure to reduce its expenses. Despite affected by the local outbreak of the pandemic in Mainland China from time to time, progress has been made in the various fund-raising projects. By the end of 2023, the construction of the main structure of the new production plant in Longnan County has been completed and the interior decoration and procurement of equipment are being accelerated; the second phase of the factory of the Group in Nankang, Ganzhou is in the stage of land formation, the research and development of smart home has made certain progress and the Group is applying for patents, and the upgrade of equipment in the Longnan plant has been completed, which has effectively improved the production efficiency and automation.

During FY2023, the principal businesses of the Group are manufacturing and selling of panel-type furniture, upholstered furniture, sport-type furniture and customised furniture. The furniture products of the Group were mainly sold in wholesale to the markets such as the United States and including direct sales through overseas retail chain stores or sales through furniture traders.

Business Review – Continued

In 2023, the Group continued to strengthen its original design capability and launch more original design manufacturing (“ODM”) products. The sales of ODM products accounted for more than 80% of the Group’s revenue during FY2023 and the proportion of sales of ODM products accounted for over 80% for many years.

Against the backdrop of the overall industry downturn, the Group’s orders from customers decreased, while the number of customers remained largely stable and the top five customers remained unchanged, highlighting the Group’s attractiveness and competitive edge in adverse situation. During FY2023, the Group acquired two new customers, GLORYMAX GLOBAL TRADING LIMITED and HONGKONG RUICHANGLI INTERNATIONAL TRADING CO., LIMITED, which have already made certain sales in 2023. The Group’s channel advantage was further consolidated.

Financial Review

During FY2023, the revenue of the Group amounted to RMB3,641 million, representing an increase of 20.7% as compared to RMB3,015 million in 2022, while the net profit recorded a decrease of 39.3% as compared to 2022. (It was mainly due to the impact of trade tariffs between China and the United States. As a result, most products have reduced prices, thus affecting the gross profit margin.)

Revenue and Gross Profit Margin by Product Types:

	2023			2022			Change in Revenue (%)
	Revenue RMB'000	Proportion (%)	Gross Profit Margin (%)	Revenue RMB'000	Proportion (%)	Gross Profit Margin (%)	
Panel-type furniture	3,434,603	94.3	13.2	2,821,086	93.6	18.0	21.7
Upholstered furniture	95,640	2.6	11.3	96,218	3.2	20.2	(0.6)
Sport-type furniture and customised furniture	95,648	2.7	9.4	97,887	3.2	17.7	(2.3)
Information technology solution services	14,821	0.4	65.4	–	–	–	100.0
Total	3,640,712	100.0	13.3	3,015,191	100.0	18.1	20.7

In 2023, the Group’s overall revenue increased by 20.7%, mainly due to the international market has eased and orders have increased.

Financial Review – Continued

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 FY2023, the revenue of panel-type furniture increased by 21.7%. The decrease in gross profit margin of panel-type furniture was attributable to the decrease in the selling price of some products of the Group affected by the continuous appreciation of the U.S. dollar against the RMB during the reporting period.

Upholstered Furniture

The Group's upholstered furniture mainly includes sofas. During FY2023, the revenue of upholstered furniture decreased by 0.6%. The decrease in gross profit margin of upholstered furniture was attributable to the decrease in the selling price of some products of the Group affected by the continuous appreciation of the U.S. dollar against the RMB during the reporting period.

Sport-type Furniture and Customised Furniture

This includes sports and recreational equipment and customised furniture. Sports and recreational equipment mainly include table tennis tables, foosball tables and pool tables. During FY2023, the revenue of Sport-type furniture and customised furniture amounted to RMB96 million representing a decrease of 2.3% as compared to the corresponding period of 2022. The decrease in gross profit margin of Sport-type furniture and customised furniture was attributable to the decrease in the selling price of some products of the Group affected by the continuous appreciation of the U.S. dollar against the RMB during the reporting period.

Financial Review – Continued

Sales by Geographical Regions:

The table below sets out the breakdown of sales of furniture products by geographical regions based on delivery destinations as requested by customers during FY2023 and FY2022:

	2023		2022		Change (%)
	RMB'000	(%)	RMB'000	(%)	
United States	2,290,770	62.9	1,841,591	61.1	24.4
The PRC	244,574	6.7	215,891	7.2	13.3
Singapore	103,961	2.9	89,868	3.0	15.7
Malaysia	99,196	2.7	83,420	2.8	18.9
Vietnam	99,718	2.7	78,734	2.6	26.7
Canada	100,538	2.8	81,520	2.7	23.3
Other locations	<u>701,955</u>	<u>19.3</u>	<u>624,167</u>	<u>20.6</u>	<u>12.5</u>
Total	<u>3,640,712</u>	<u>100.0</u>	<u>3,015,191</u>	<u>100.0</u>	<u>20.7</u>

The sales from the United States still accounted for a significant portion of the revenue of the Group. During FY2023, the revenue derived from the sales of furniture products to the United States increased by 24.4% as compared to the corresponding period of 2022, and the proportion has been increased from 61.1% in 2022 to 62.9% in 2023, representing an increase of 1.8%, mainly due to the increased orders from the United States. Sales in mainland China, Singapore and other regions also increased, mainly because the market demand has rebounded and orders have returned slightly. Meanwhile, the Company increased product upgrading and R&D investment, and the results have been obvious.

Financial Review – Continued

Sales to Top Five Customers

The table below sets out an analysis of sales to the top five customers of the Group for FY2023 and FY2022:

Customer	2023		2022		Change (%)
	Revenue <i>RMB'000</i>	Proportion (%)	Revenue <i>RMB'000</i>	Proportion (%)	
Customer A	811,560	22.3	714,364	23.7	13.6
Customer C	717,509	19.7	611,236	20.3	17.4
Customer E	489,241	13.4	417,571	13.8	17.2
Customer D	588,911	16.2	402,007	13.3	46.5
Customer B	N/A	N/A	375,745	12.5	N/A
Customer F	201,092	5.5	N/A	N/A	N/A
Total	<u>2,808,313</u>	<u>77.1</u>	<u>2,520,923</u>	<u>83.6</u>	<u>11.4</u>

A stable and long-term business relationship with the major customers is fundamental to the Group's success. The Group has strategically prioritised orders placed by the major customers. The Group has maintained a long-term relationship with each of top five customers. As a result, sales of the top five customers increased by 11.4% during FY2023 as compared to 2022, and the aggregate sales to the top five customers accounted for 77.1%, representing a decrease of 6.5 percentage points as compared to 83.6% in 2022.

Sales of ODM and Original Equipment Manufacturing (“OEM”) Furniture: (Exclude Panel-type or Customised Household Products)

	2023		2022		Change (%)
	Revenue <i>RMB'000</i>	Proportion (%)	Revenue <i>RMB'000</i>	Proportion (%)	
ODM	3,012,635	83.5	2,427,778	81.1	24.09
OEM	<u>595,311</u>	<u>16.5</u>	<u>565,611</u>	<u>18.9</u>	<u>5.25</u>
Total	<u>3,607,946</u>	<u>100</u>	<u>2,993,389</u>	<u>100</u>	<u>100</u>

Financial Review – Continued

Sales of ODM and Original Equipment Manufacturing (“OEM”) Furniture: (Exclude Panel-type or Customised Household Products) – Continued

The Group always attaches great importance to the improvement of independent research and development capabilities and continues to expand its sales in ODM to increase the dependence of our customers and the competitiveness of the Group. As for the OEM, we strictly follow the specifications and requirements provided by our customers. During FY2023, the sales of ODM products accounted for 83.5% of the Group’s revenue of furniture products and accounted for over 80% for many years.

Cost of Sales

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

	2023	2022	Change
	RMB’000	RMB’000	(%)
Cost of materials consumed	2,626,545	1,912,279	37.3
Direct labour	219,204	214,412	2.2
Subcontracting fees	35,536	20,000	77.7
Overhead costs	276,114	295,324	(6.5)
Provision for impairment of inventories	–	28,402	(100.0)
Total	<u>3,157,399</u>	<u>2,470,417</u>	<u>27.8</u>

During FY2023, the Group’s cost of sales increased by 27.8% from approximately RMB2.470 billion in 2022 to approximately RMB3.157 billion in 2023, mainly due to the increase in sales. As revenue increased in 2023, cost of sales will also increase simultaneously.

Financial Review – Continued

Breakdown of Other Gains and Losses

Other gains and losses include the following breakdown:

	2023	2022
	RMB'000	RMB'000
Exchange gains, net	32,071	80,620
Gain on disposal of interest in an associate	1	–
Gain/(loss) on disposal of property, plant and equipment	12,706	(5,867)
Total:	44,778	74,753

During FY2023 and FY2022, the significant appreciation of U.S. dollar against the RMB resulted in significant exchange gains. The compensation received from the local government for disposal of property, plant and equipment resulted in disposal gain for FY2023.

Use of Net Proceeds from the Global Offering

The Shares were listed on the Stock Exchange on 29 December 2020 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 as described and defined in the prospectus of Global Offering (the “**Prospectus**”) and expected schedule:

Use of Net Proceeds from the Global Offering – Continued

	Net proceeds <i>HK\$ million</i>	Percentage	Amount utilised as of 31 December 2023 <i>HK\$ million</i>	Amount unutilised as at 31 December 2023 <i>HK\$ million</i>	Expected date for fully utilising the unutilised proceeds
Establishing new factory compartments for the manufacturing of panel furniture and upholstered furniture	636	45.4%	636	–	N/A
Construction of the second phase of the factory of the Group located in Nankang, Ganzhou, Jiangxi Province of the PRC	463	33.0%	339	124	On or before 30 June 2024 <i>(Note)</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	–	N/A
Enhancing the product design, research and development capabilities of the Group	93	6.6%	93	–	N/A
General replenishment of working capital and other general corporate purpose	140	10.0%	140	–	N/A
Total	1,402	100.0%	1,278	124	

Note: As of the date of this announcement, 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 disclosed in the Prospectus. The delay in the use of proceeds was mainly due to 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.

The unutilised net proceeds of the Group are being kept in banks and authorised financial institutions in Hong Kong and the PRC.

Use of Net Proceeds from the Global Offering – Continued

Summary of Consolidated Statement of Cash Flow

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>	Change (%)
Operating profits before working capital changes	435,877	553,745	(21.3)
Change in working capital	(503,275)	(619,825)	(18.8)
Income tax paid	(26,264)	(88,456)	(70.3)
Net cash used in operating activities	(93,662)	(154,536)	(39.4)
Net cash used in investing activities	(1,345,201)	(1,353,483)	(0.6)
Net cash generated from/(used in) financing activities	396,410	(123,244)	(421.6)

As of 31 December 2023, the cash and cash equivalents of the Group were approximately RMB465,355,000 (2022: RMB1,505,808,000).

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 31 December 2023, the Group had short-term borrowings of approximately RMB734 million (31 December 2022: approximately RMB294 million) and long-term borrowings of approximately RMB90 million (31 December 2022: approximately RMB100 million). The Group's major bank borrowings were denominated in RMB and bear interest at both fixed or floating rates. The fixed or floating interest rates ranged from 2.5% to 7.4% per annum (2022: 3.4% to 7.6% per annum).

The Group's main sources of working capital are cash flows from operating activities and bank deposits. As at 31 December 2023, the Group's current ratio was approximately 2.6 (31 December 2022: approximately 7.8). As at 31 December 2023, the Group's gearing ratio was approximately 15.7% (31 December 2022: approximately 8.1%), which is calculated by dividing the total debt by the equity attributable to the equity owners of the Company.

INVENTORY PROVISION

As of 31 December 2023, the Group has made provision for impairment of inventories of RMBNil million (31 December 2022: RMB28 million). The Group estimates whether to make inventory provision based on the inventory turnover days and sales performance of each product.

IMPAIRMENT OF TRADE 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 may adjust the credit period granted to these customers. We generally provide export sales and domestic sales customers with 150 days (2022: 90 days) at maximum. We record trade receivables net of any impairment provision made.

As of 31 December 2023, our trade receivables (net of impairment provision) amounted to approximately RMB1,526.53 million (31 December 2022: approximately RMB773.16 million). Such increase in trade receivables was mainly due to the increase in our credit period granted to the customers. As at 31 December 2023, provision for impairment loss recognised on trade receivables of approximately RMB59.79 million (31 December 2022: approximately RMB16.82 million) has been made.

PLEDGE OF ASSETS

As of 31 December 2023, the Group's certain land use right included in right-of-use assets, buildings and machineries included in property, plant and equipment and trade receivables with an aggregate carrying amount of approximately RMB567.60 million (31 December 2022: approximately RMB427.25 million) were pledged to secure borrowings granted to the Group.

As of 31 December 2023, 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 RMB60.24 million (31 December 2022: approximately RMB46.32 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 2023, the Group had capital commitments amounted to approximately RMB681 million for the purpose of acquisition of intangible assets and property, plant and equipment (31 December 2022: approximately RMB114 million).

As at 31 December 2023, the Group had no significant contingent liabilities (31 December 2022: no significant contingent liabilities).

FOREIGN EXCHANGE EXPOSURE

During FY2023, the Group has not adopted any financial instrument to hedge the foreign currency exchange risks. Since most of the revenue is settled in U.S. dollars, short term appreciation of the U.S. dollars may increase the overseas sales income settled in U.S. dollars.

HUMAN RESOURCES AND TRAINING

As of 31 December 2023, the Group had a total of 3,028 employees (31 December 2022: 3,028 employees), the total staff costs were approximately RMB300.7 million (31 December 2022: approximately RMB283.6 million). The remuneration package of all employees is determined based on their work performance, experience and current market level.

We organise friendship 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. The directors believe such initiatives have contributed to the increased employee's productivity and cohesiveness.

MATERIAL ACQUISITIONS AND DISPOSALS

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 the consideration of RMB191 million. As at 31 December 2023, RMB191 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.

All conditions precedent to the sale and purchase agreement have been fulfilled and the completion took place on 26 September 2023.

Save as disclosed above, during the FY2023, there were no material acquisitions or disposals of subsidiaries, associates and joint ventures by the Group.

SIGNIFICANT INVESTMENT

During FY2023, there was no significant investment held by the Company.

EVENT AFTER THE REPORTING PERIOD

On 11 January 2024, Cheer Union Securities Limited (the “**Placing Agent**”) and the Company entered into a placing agreement pursuant to which the Placing Agent has conditionally agreed to place, on a best effort basis, up to 613,818,000 new ordinary shares of HK\$0.1 each in the share capital of the Company (the “**Placing Shares**”) at the placing price of HK\$0.13 per Placing Share to not less than six placees. On 1 February 2024, a total of 306,910,000 Placing Shares have been successfully placed by the Placing Agent to one independent placee (namely Yggies World Pte. Ltd., which is wholly owned by Ms. Goh Siok Teng). The net proceeds (after deducting the placing commission and other related expenses and professional fees) amounted to approximately HK\$39.3 million. Please refer to the Company’s announcements dated 11 January 2024, 23 January 2024, 24 January 2024 and 1 February 2024 for further details.

On 8 February 2024, Kwok Properties Pte. Ltd. (the “**Subscriber**”) and the Company entered into a subscription agreement pursuant to which the Subscriber has conditionally agreed to subscribe for 306,908,000 new ordinary shares of HK\$0.1 each in the share capital of the Company (the “**Subscription Shares**”) at the subscription price HK\$0.135 per Subscription Share. On 4 March 2024, 306,908,000 Subscription Shares have been allotted and issued to the Subscriber. The net proceeds (after deduction of the related expenses) amounted to approximately HK\$40.8 million in the share capital of the Company. Please refer to the Company’s announcements dated 8 February 2024 and 4 March 2024 for further details.

On 15 April 2024, all of the 214,836,300 outstanding 2022 Share Options granted to certain external consultants of the Company were cancelled in accordance with the share option scheme adopted by the Company on 12 December 2020. Please refer to the Company’s announcement dated 15 April 2024 for further details.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend in respect of FY2023 (FY2022: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 27 May 2024 to Friday, 31 May 2024 (both days inclusive) for the purpose of determining the right to attend and vote at the forthcoming annual general meeting (“AGM”). In order to be qualified for attending and voting at the forthcoming AGM, unregistered holders of Shares shall 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Friday, 24 May 2024.

BUSINESS OUTLOOK

Looking ahead to 2024, with the recovery of development of the economic level of different countries and the improvement of disposable income per capita and living conditions, the willingness to consume furniture will gradually resume. The developed economies (such as the United States) will slow down the pace of interest rate hikes, which will have a positive impact on the real estate market, thus bringing benefits to China’s furniture exporters.

With the rising income and living standard of the residents, consumers are no longer satisfied with the basic functions of furniture products, but pay more attention to the brand and usage experience of the products. In order to meet the needs of consumers, the Group will continue to increase its investment in product design and branding to continuously improve the beauty and usage experience of products.

We will comprehensively and constantly strengthen the Group’s management, continuously expand the international large-scale retail chain customers, and persistently promote research, development and innovation, so as to contribute a concrete foundation to the Group’s long-term development and strive to achieve long-term positive development of the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities for FY2023.

CORPORATE GOVERNANCE

The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) set out in Appendix C1 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 for FY2023.

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 for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. After specific enquiry made by the Company, all of the directors of the Company 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 for FY2023.

AUDIT COMMITTEE

The Company has established an audit committee which comprises the three independent non-executive directors of the Company, namely Mr. Suen To Wai, Ms. Zhang Lingling and Mr. Feng Zhaowei. Mr. Suen To Wai is the chairman of the audit committee.

The audit committee of the Company has discussed with the management of the Group and reviewed the audited consolidated financial results of the Group for FY2023, including accounting principles and practices adopted by the Group, and discussed the financial reporting system and the risk management and internal control systems of the Company.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange and the Company. The annual report for the FY2023 will be despatched to the Shareholders and will be published on the websites of the Stock Exchange and the Company in due course in accordance with the Listing Rules.

SCOPE OF WORK OF THE GROUP’S AUDITOR

The figures set out in this annual results announcement of the Group’s results for the year ended 31 December 2023 have been agreed by the Group’s auditor, ZHONGHUI ANDA CPA Limited (“ZHONGHUI ANDA”) to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by ZHONGHUI ANDA in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA on this annual results announcement.

RESUMPTION OF TRADING IN THE SHARES

Trading in the Shares on the Stock Exchange had been suspended with effect from 9:00 a.m. on 2 April 2024. As the annual results of the Group for the financial year ended 31 December 2023 have been published, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 23 April 2024.

In the meantime, Shareholders and potential investors of the Company are advised to exercise caution when dealing with the Shares.

By order of the Board
Huisen Household International Group Limited
Zeng Ming
Chairman

Hong Kong, 22 April 2024

As at the date of this announcement, the executive directors of the Company are Mr. Zeng Ming, Ms. Zeng Minglan and Mr. Wu Runlu; and the independent non-executive directors of the Company are Mr. Suen To Wai, Ms. Zhang Lingling and Mr. Feng Zhaowei.