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 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)
Ms. Zhang Lingling
Mr. Feng Zhaowei

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. Ho Wing Yan

Authorised Representatives
Mr. Zeng Ming
Ms. Ho Wing Yan
Ms. Zeng Minglan
(alternate to the authorised representatives)

Registered Office
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Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

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Daluo Industrial Park
Longnan Economic Technology Development Zone
Longnan County
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Principal Place of Business in Hong Kong
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Cayman Islands Principal Share Registrar and Transfer Office
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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
ZHONGHUI ANDA CPA Limited
Registered Public Interest Entity Auditor

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.huisengufen.cn

CHAIRMAN'S STATEMENT

Mr. Zeng Ming
Chairman

Dear Shareholders:

On behalf of the board of directors (the "**Board**") of Huisen Household International Group Limited (the "**Company**", together with the subsidiaries, the "**Group**"), I am pleased to present the annual report of the Group for the year ended 31 December 2023 ("**FY2023**" or the "**Period under Review**").

2023 is a challenging year. The furniture export industry in the PRC, including the Group, experienced trials and tribulations during the year. Developed countries, represented by the United States, have reduced or canceled pandemic subsidies.The impact of the United States trade tariff have led to a decline in profit. The revenue of the Group increased by 20.7% with net profit decreasing by 39.3% in 2023.

Despite the downturn in the industry, we are still optimistic about the prospects of the industry and will continue to increase investment in research and development to plan for the future.

In terms of sales regions, revenue from the United States continued to account for the largest share of total sales at 62.9%, representing an increase from 61% in 2022.

Proportion of revenue from Mainland China decreased from 7.2% in 2022 to 6.7% in 2023, proportion of revenue from Malaysia, Vietnam and Canada remained stable, and proportion of revenue from other regions decreased from 20.7% in 2022 to 19.3% in 2023. The Group is striving to expand revenue outside the United States, including African countries. In the face of difficulties, we stayed true to the mission and actively expanded the market. In 2023, the Group sold its products to 46 countries, representing an decrease of 10 countries as compared to 2022. The proportion of the United States market remained basically the same as that of 2022, and the Company gradually expand markets in Asia and other countries in the Americas except the United States.

CHAIRMAN'S STATEMENT

With respect to fundraising and investment projects, efforts are being made to advance various projects. The construction of the main structure of the new production plant in Longnan has been completed and the interior decoration and procurement of equipment are being accelerated; the main structure of the second phase of the factory of the Group in Nankang, Ganzhou is under construction; the research and development of smart home has made certain progress and the Group is applying for patents; and the renewal and renovation of equipment has been completed.

Looking ahead to 2024, with the easing of interest rate hikes in the developed economies (such as the United States) and the stabilization and recovery of the economy in the post-pandemic era, it is expected that the demand in the furniture market will gradually recover and the Group's operation will enjoy a favorable business environment.

In 2024, we will continue to vigorously pursue our fundraising and investment projects, comprehensively enhance our research and development and innovation capabilities, and broaden our moat.

The best way to meet the future is to create it. Research and development and innovation are the basics of the Group's continuous development and growth. By the end of 2022, the Group has formed four research and development centers in the United States, Ganzhou, Beijing and Dongguan. The research and development center in the United States emphasizes on cutting-edge product design and focuses on achieving innovation and breakthroughs from zero to one; the research and development center in Ganzhou carries on the innovative design concept of the United States and strives to realize new product industrialization from zero to ten and to N; the research and development centers in Dongguan and Beijing are rooted in the most dynamic smart home manufacturing center and smart home research and development and design center in PRC respectively, expanding the new blue ocean market of smart home for the Group. In 2024, we will give full play to the synergy of the four research and development centers, explore the potential cooperation with colleges and universities such as Jiangxi University of Science and Technology (江西理工大學) and other cooperative research and development institutions and attract mid- to high-end research and development talents to continue to delve into the innovation of panel-type furniture and upholstered furniture products and launch smart home products as soon as possible to lead the market consumption trend.

Talent is the foundation of the Group's development. We will further promote the Group's values of loyalty, responsibility, gratitude and service, continue to strengthen employee training, enhance the sense of master of the employees, and continue to attract mid- to high-end talents.

In the face of the ever-changing international market, we will always maintain our strategic focuses, solidly promote research and development and innovation, improve our core competitiveness, and continuously launch products that meet market demand.

Lastly, on behalf of the Board, I would like to express my sincere gratitude to our investors and partners for their support and encouragement throughout the year.

Mr. Zeng Ming
Chairman
Huisen Household International Group Limited

Hong Kong, 22 April 2024

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.

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			
	Revenue RMB'000	**Proportion (%)**	**Gross Profit Margin (%)**	Revenue RMB'000	Proportion (%)	Gross Profit Margin (%)	Change in Revenue (%)
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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

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, football 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.

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	**701,955**	**19.3**	624,167	20.6	12.5
Total	**3,640,712**	**100.0**	3,015,191	100.0	20.7

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:

	2023		2022		
Customer	**Revenue RMB'000**	**Proportion (%)**	Revenue RMB'000	Proportion (%)	Change (%)
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	**2,808,313**	**77.1**	2,520,923	83.6	11.4

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
	RMB'000	**(%)**	RMB'000	(%)	(%)
ODM	**3,012,635**	**83.5**	2,427,778	81.1	24.09
OEM	**595,311**	**16.5**	565,611	18.9	5.25
Total	**3,607,946**	**100**	2,993,389	100	100

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

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 RMB'000	2022 RMB'000	Change (%)
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	**3,157,399**	2,470,417	27.8

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.

Breakdown of Other Gains and Losses

Other gains and losses include the following breakdown:

	2023 RMB'000	2022 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:

	Net proceeds HK$ million	**Percentage**	**Amount utilised as of 31 December 2023** HK$ million	**Amount unutilised as at 31 December 2023** HK$ million	**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 *(Note)*
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	

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING (Continued)

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.

Summary of Consolidated Statement of Cash Flow

	2023	2022	Change
	RMB'000	RMB'000	(%)
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 RMB Nil 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 3,075 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.

MATERIAL ACQUISITIONS AND DISPOSALS (Continued)

Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures (Continued)

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.

CORPORATE GOVERNANCE REPORT

The Board is pleased to report to the Shareholders on the corporate governance of the Company for FY2023.

CORPORATE GOVERNANCE CULTURE

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, the Company believes that Shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

– satisfactory and sustainable returns to Shareholders;

– that the interests of those who deal with the Company are safeguarded;

– that overall business risk is understood and managed appropriately;

– the delivery of high-quality products and services to meet the satisfaction of customers; and

– that high standards of ethics are maintained.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standard of corporate governance.

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

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix C1 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the basis of the Company's corporate governance practices.

In the opinion of the Directors, throughout FY2023, the Company has complied with all the code provisions as set out in the CG Code.

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND EMPLOYEES' SECURITIES TRANSACTIONS

The Company devised its own Securities Dealing Code regarding the code of conduct of Directors and employees (who are likely to be in possession of unpublished price-sensitive information of the Company) on dealings in the Company's securities (the "**Company's Code**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company's Code throughout FY2023.

No incident of non-compliance of the Company's Code by the employees of the Company was noted by the Company during FY2023.

BOARD OF DIRECTORS

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

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

Board Composition

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

Executive Directors

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

Independent Non-Executive Directors

Mr. Suen To Wai
Ms. Zhang Lingling
Mr. Feng Zhaowei
Ms. Leong Mali *(resigned on 18 January 2023)*
Mr. Zhou Zhongqi *(resigned on 8 February 2023)*

The biographical information of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 39 to 41 of this report.

The relationships between the Directors are disclosed in the respective Director's biography under the section headed "Biographies of Directors and Senior Management" on page 39 of this report. Save as disclosed therein, there is no financial, business, family or other relationships between the members of the Board.

CORPORATE GOVERNANCE REPORT

Board Meetings and Directors' Attendance Records

According to the CG Code, regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

A summary of the attendance records of the Directors at the Board meetings held during FY2023 is set out below:

Name of Directors	Attendance
Mr. Zeng Ming	7/7
Ms. Zeng Minglan	7/7
Mr. Wu Runlu	7/7
Mr. Suen To Wai	7/7
Ms. Zhang Lingling	7/7
Mr. Feng Zhaowei	7/7
Ms. Leong Mali *(resigned on 18 January 2023)*	0/0
Mr. Zhou Zhongqi *(resigned on 8 February 2023)*	0/0

Apart from regular Board meetings, the Chairman also held one meeting with the independent non-executive Directors without the presence of other Directors during the year.

Chairman and Chief Executives

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

The following table lists the current members of the Board as at the date of this report and sets out their respective roles and responsibilities.

Name of Directors	Role and Responsibilities
Mr. Zeng Ming	Overall strategic development and business development of the Group
Ms. Zeng Minglan	Formulation of financial strategies, financial management and internal control of the Group
Mr. Wu Runlu	Formulation and implementation of the strategies and business plans and overall daily operation management of the Group
Mr. Suen To Wai	Overseeing the overall affairs of the Group at Board level
Ms. Zhang Lingling	Overseeing the overall affairs of the Group at Board level
Mr. Feng Zhaowei	Overseeing the overall affairs of the Group at Board level

CORPORATE GOVERNANCE REPORT

Independent Non-Executive Directors

During FY2023, the Board had complied the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Board Independence Evaluation

The Company has established a Board Independence Evaluation Mechanism during FY2023 which sets out the processes and procedures to ensure a strong independent element on the Board, which allows the Board effectively exercises independent judgment to better safeguard Shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence. The Board Independence Evaluation Report will be presented to the Board which will collectively discuss the results and the action plan for improvement, if appropriate.

During FY2023, all Directors have completed the independence evaluation in the form of a questionnaire individually and supplemented by individual interviews. The Board Independence Evaluation Report was presented to the Board and the evaluation results were satisfactory.

During FY2023, the Board reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

CORPORATE GOVERNANCE REPORT

Appointment and Re-election of Directors

Code Provision B.2.2 of the CG Code states that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

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

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

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

The independent non-executive Director, Ms. Zhang Lingling, has entered into a letter of appointment with the Company for a term of three years commencing from 1 April 2022, and renewable automatically for successive terms of two years after the expiry of the current term, which may be terminated by not less than three months' notice in writing served by either party on the other.

The independent non-executive Director, Mr. Feng Zhaowei, has entered into a letter of appointment with the Company for a term of three years commencing from 7 April 2022, and renewable automatically for successive terms of two years after the expiry of the current term, which may be terminated by not less than three months' notice in writing served by either party on the other.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

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

During FY2023, seminar materials have been prepared by the legal advisers to the Company for all Directors in relation to the on going obligations and directors' duties and responsibilities of publicly listed company under certain applicable Hong Kong laws and regulations, including the Listing Rules. In addition, relevant reading materials including compliance manual, legal and regulatory updates and seminar handouts have been provided to the Directors for their reference and studying.

CORPORATE GOVERNANCE REPORT

The training records of the Directors for FY2023 have been provided to the Company and are summarised as follows:

Directors	Reading materials regarding regulatory update and corporate governance matters	Attending seminars/ in-house workshops relevant to the Company's business, Listing Rules compliance and risk management
Executive Directors		
Mr. Zeng Ming	✔	✔
Ms. Zeng Minglan	✔	✔
Mr. Wu Runlu	✔	✔
Independent Non-Executive Directors		
Mr. Suen To Wai	✔	✔
Ms. Zhang Lingling	✔	✔
Mr. Feng Zhaowei	✔	✔
Ms. Leong Mali *(resigned on 18 January 2023)*	✔	✔
Mr. Zhou Zhongqi *(resigned on 8 February 2023)*	✔	✔

BOARD COMMITTEES

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

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

CORPORATE GOVERNANCE REPORT

Audit Committee

During FY2023, the Audit Committee consists of three independent non-executive Directors, namely Mr. Suen To Wai, Ms. Zhang Lingling and Mr. Feng Zhaowei. Mr. Suen To Wai is the chairman of the Audit Committee possesses appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the committee members is a former partner of or has any financial interest in the Company's existing external auditors within two years before his appointment as a member of the Audit Committee.

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

The Audit Committee held five meetings to review the interim and annual financial results and reports in respect of FY2023 and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, re-appointment of external auditor, audit planning, engagement of non-audit services and arrangements for employees to raise concerns about possible improprieties.

The attendance records of the members of the Audit Committee during FY2023 are as follows:

Name of Members of the Audit Committee	Attendance
Mr. Suen To Wai	2/2
Ms. Zhang Lingling	2/2
Mr. Feng Zhaowei	2/2
Ms. Leong Mali *(resigned on 18 January 2023)*	0/0

The Audit Committee also met with the external auditor twice during FY2023 without the presence of the executive Directors.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

During FY2023, the Remuneration Committee consists of three members, namely Mr. Suen To Wai, and Mr. Feng Zhaowei, independent non-executive Directors and Ms. Zeng Minglan, executive Director. Mr. Suen To Wai is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, and reviewing and/or approving matters relating to share schemes under chapter 17 of the Listing Rules.

The Remuneration Committee had four meetings during FY2023 to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the executive Directors and senior management.

The attendance records of the members of the Remuneration Committee during FY2023 are as follows:

Name of Members of the Remuneration Committee	Attendance
Ms. Zeng Minglan	2/2
Mr. Suen To Wai	2/2
Mr. Feng Zhaowei	2/2
Ms. Leong Mali *(resigned on 18 January 2023)*	0/0

Nomination Committee

During FY2023, the Nomination Committee consists of three members, namely Mr. Suen To Wai and Mr. Feng Zhaowei, independent non-executive Directors and Mr. Zeng Ming, executive Director. Mr. Feng Zhaowei is the chairman of the Nomination Committee.

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

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

CORPORATE GOVERNANCE REPORT

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

The Nomination Committee had four meetings during FY2023 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at the annual general meeting of the Company. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board has been maintained.

The attendance records of the members of the Nomination Committee during FY2023 are as follows:

Name of Members of the Nomination Committee	Attendance
Mr. Zeng Ming	2/2
Mr. Suen To Wai	2/2
Mr. Feng Zhaowei	2/2
Ms. Leong Mali *(resigned on 18 January 2023)*	0/0

Corporate Governance Committee

During FY2023, the Corporate Governance Committee consists of three members, namely, Mr. Suen To Wai and Ms. Zhang Lingling, independent non-executive Directors and Ms. Zeng Minglan, executive Director. Mr. Suen To Wai is the chairman of the Corporate Governance Committee.

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

The Corporate Governance Committee had two meetings during FY2023 to review and approve the corporate governance report in respect of FY2022 and to review the Group's policies and practices on corporate governance and to make recommendations to the Board.

The attendance records of the members of the Corporate Governance Committee during FY2023 are as follows:

Name of Members of the Corporate Governance Committee	Attendance
Ms. Zeng Minglan	2/2
Mr. Suen To Wai	2/2
Ms. Zhang Lingling	2/2
Ms. Leong Mali *(resigned on 18 January 2023)*	0/0

CORPORATE GOVERNANCE REPORT

Risk Management Committee

During FY2023, the Risk Management Committee consists of three members, namely Mr. Zeng Ming and Ms. Zeng Minglan, executive Directors and Ms. Zhang Lingling, independent non-executive Director. Mr. Zeng Ming is the chairman of the Risk Management Committee.

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

The Risk Management Committee had two meetings during FY2023 to review the adequacy and effectiveness of the Group's risk management and internal control systems and the internal audit function.

The attendance records of the members of the Risk Management Committee during FY2023 are as follows:

Name of Members of the Risk Management Committee	Attendance
Mr. Zeng Ming	2/2
Ms. Zeng Minglan	2/2
Ms. Zhang Lingling	2/2
Ms. Leong Mali *(resigned on 18 January 2023)*	0/0

Board Diversity Policy

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

Pursuant to the Board Diversity Policy, the selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural, educational background, professional experience, skills, knowledge and length of service, in order to maintain an appropriate range and balance of skills, experience and diversity of perspectives on the Board. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board and the business needs of our Company from time to time.

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

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

CORPORATE GOVERNANCE REPORT

Mechanisms to Ensure Independent Views

The Company makes certain that the Board has access to independent views and input through the mechanisms listed below:

1. The Nomination Committee should review the Board composition and the independence of the independent non-executive Directors annually, in particular the portion of the independent non-executive Directors and the independence of the independent non-executive Director who has served for more than nine years.

2. A written confirmation was received by the Company under Rule 3.13 of the Listing Rules from each of the independent non-executive Directors in relation to his/her independence to the Company. The Company considers all its independent non-executive Directors to be independent.

3. In view of good corporate governance practices and to avoid conflict of interests, the Directors who are also Directors and/or senior management of the Company's controlling shareholders and/or certain subsidiaries of the controlling shareholders, would abstain from voting in the relevant Board resolutions on the transactions with the controlling shareholders and/or its associates.

4. The chairman of the Board shall meet with independent non-executive Directors at least once annually.

5. All members of the Board can seek independent professional advice when necessary to perform their responsibilities in accordance with the Company's policy.

   The mechanisms to ensure independent views are reviewed by the Nomination Committee for ensuring independent views and input are available to the Board on an annual basis, whether in terms of proportion, recruitment and independence of independent non-executive Directors, and their contribution and access to external independent professional advice.

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

(A) at least 1 of members of the Board shall be female;

(B) at least 33.3% of the members of the Board shall be non-executive Directors or independent non-executive Directors;

(C) at least one-third of the members of the Board shall be independent non-executive Directors;

(D) at least one of the members of the Board shall have obtained accounting or other professional qualifications;

(E) at least 30% of the members of the Board shall have more than 5 years of experience in the industry he/she is specialised in;

(F) at least 3 of the members of the Board shall have China-related work experience.

As at the date of this report, the Nomination Committee considered that the Board is sufficiently diverse.

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

CORPORATE GOVERNANCE REPORT

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

	Number of Directors
Gender	
Female	2
Male	4
Nationality	
Chinese	5
St. Kitts and Nevis	1
Age	
31–40	1
41–50	3
51–60	2
Length of Service	
Less than 1 year	0
1–3 years	2
More than 3 years	4

Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this report:

	Female	Male
Board	33.33%	66.67%
	(2)	(4)
Senior Management	44.44%	55.56%
	(4)	(5)
Other employees	32.42%	67.58%
	(992)	(2,068)
Overall workforce	32.46%	67.54%
	(998)	(2,077)

The Board has set and achieved at least 16.67% (1) of female Directors, 33.33% (3) of female senior management and 25% (757) of female employees of the Group and considers that the above current gender diversity is satisfactory.

Details on the gender ratio of the Group together with relevant data can be found in the Environmental, Social and Governance Report.

CORPORATE GOVERNANCE REPORT

Director Nomination Policy

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

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

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

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

CORPORATE GOVERNANCE REPORT

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During FY2023 and up to the date of this report, the Board approved the resignation of Ms. Leong Mali and Mr. Zhou Zhongqi as independent non-executive Directors with effect from 18 January 2023 and 8 February 2023, respectively after taking into consideration of the recommendations from the Nomination Committee.

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

CONSTITUTIONAL DOCUMENTS

There was no significant charge in the constitutional documents of the Company during the Reporting Period.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

The management has confirmed to the Board and the Audit Committee and the Risk Management Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2023.

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

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

The Board, as supported by the Audit Committee and the Risk Management Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for FY2023, and considered that such systems are effective and adequate.

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

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

The details of measures and/or improvements that have been/will be made by the Company to prevent re-occurrence of a delay in results publication in future shown as below:

- Facilitate early communications with the banks and other financial institutions during the initial stages of the audit process to ensure timely receipt of the external audit confirmation letters by the Auditor.

- Prepare the information and documents required for the valuation report in advance in the future, and communicate the required procedures with the auditor in advance and determine an appropriate timetable to ensure that the valuation report can be completed on time.

- Confirm the external audit handover before beginning of audit process to ensure sufficient time for external auditor to get familiar with the Company, which will contribute to a more streamlined and efficient audit process going forward in the ensuring year.

CORPORATE GOVERNANCE REPORT

NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

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

The Company has received written declarations from each controlling Shareholder in respect of his/its and/or his/its close associates' compliance with the terms of the Deed as at the date of this report. The independent non-executive Directors have also reviewed the compliance with the Deed and enforcement of the terms of the Deed by the controlling Shareholders and confirmed that the controlling Shareholders have not been in breach of the Deed during FY2023.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for FY2023.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 56 to 60.

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

AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditors in respect of audit services and non-audit services for FY2023 is set out below:

Service Category	**Fees Paid/ Payable** (RMB'000)
Audit services	2,000
Non-audit services	
– Interim review	–
	2,000

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Ms. Ho Wing Yan ("**Ms. Ho**"), being an external service provider, is acting as the company secretary of the Company.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices matters. Ms. Zeng Minglan, the executive Director and the vice chairlady of the Board, has been designated as the primary contact person at the Company which would work and communicate with Ms. Ho on the Company's corporate governance and secretarial and administrative matters.

For FY2023, Ms. Ho has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels.

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

Convening an Extraordinary General Meeting

Pursuant to Article 64 of the Articles of Association of the Company, extraordinary general meetings can be convened on the requisition of one or more Shareholders holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

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

CORPORATE GOVERNANCE REPORT

Putting Forward Enquiries to the Board

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

Tricor Investor Services Limited

Address:	17/F, Far East Finance Centre 16 Harcourt Road, Hong Kong
Email:	is-enquiries@hk.tricorglobal.com
Telephone:	(852) 2980 1333
Fax:	(852) 2810 8185

Contact Details

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

Address:	Room 2806, 28/F, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong (For the attention of the Board of Directors/Company Secretary)
Email:	investorenquiry@huisengufen.cn
Telephone:	(852) 2980 1888

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

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

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

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

A summary of the attendance records of the Directors at the general meeting of the Company held during FY2023 are as follows:

Name of Director	Attendance at the Annual General Meeting
Mr. Zeng Ming	1/1
Ms. Zeng Minglan	1/1
Mr. Wu Runlu	1/1
Mr. Suen To Wai	1/1
Ms. Zhang Lingling	1/1
Mr. Feng Zhaowei	1/1
Ms. Leong Mali *(resigned on 18 January 2023)*	0/0
Mr. Zhou Zhongqi *(resigned on 8 February 2023)*	0/0

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

During FY2023, the Company has amended its Articles of Association. Details of the amendments are set out in the circular dated 28 April 2023 to the Shareholders. An up-to-date version of the Company's Amended and Restated Memorandum and Articles of Association is also available on the Company's website and the Stock Exchange's website.

CORPORATE GOVERNANCE REPORT

Policies relating to Shareholders

The Company has in place a shareholders' communication policy (the "**Shareholders' Communication Policy**"). This Shareholders' Communication Policy aims to set out the provisions with the objective of ensuring that Shareholders, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company.

The Company has established the following channels for maintaining an on-going dialogue with its Shareholders as follows:

(a) Shareholders' or Investors' Enquiries

The Shareholders shall direct their questions about their shareholdings to the Company or the Company's share registrar. The Company shall provide Shareholders with the designated contacts, correspondence addresses, email addresses and enquiry lines in order to enable them to make any query in respect of the Company.

(b) Corporate Communication

"Corporate communication" refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including, but not limited to, annual reports, interim reports, notices of meetings, circulars and proxy forms. They will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding.

(c) Corporate Website

Any information or documents of the Company posted on the Stock Exchange's website will also be published on the Company's website. All press releases issued by the Company will be made available on the Company's website.

(d) Shareholders' Meetings

The annual general meeting and other extraordinary general meetings of the Company are primary forum for communication between the Company and Shareholders. The Company shall provide Shareholders with relevant information on the resolutions(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. Where appropriate or required, the chairman of the Board and other Board members, the chairmen of board committees or their delegates, and the external auditors should attend general meetings of the Company to answer Shareholders' questions (if any). The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval.

CORPORATE GOVERNANCE REPORT

(e) Investment Market Communications

Investors'/analysts' briefings and one-on-one meetings, media interviews, etc. will be available on a regular basis in order to facilitate communication between the Company, Shareholders and the investment community.

The Board reviewed the implementation and effectiveness of the Shareholders' Communication Policy and the results were satisfactory.

The Company has adopted a dividend policy (the "**Dividend Policy**") on payment of dividends. The Company does not have any fixed dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and the external factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biography of the Directors and senior management of the Group as at the date of this report is set out below:

EXECUTIVE DIRECTORS

Mr. ZENG Ming (曾明), aged 53, is the founder of the Group, an executive Director and the chairman of the Board who is responsible for the overall strategic development and business development of the Group. He was appointed as a Director on 16 March 2018 and re-designated as an executive Director on 10 September 2018. Mr. Zeng is also a director of certain subsidiaries of the Group and the brother of Ms. Zeng Minglan.

Mr. Zeng has over 21 years of experience in the furniture industry. He worked at Ganzhou Weibao Furniture Co., Limited* (贛州維寶家具有限公司) (formerly known as Gan County Hongyuan Agricultural Development Co., Limited* (贛縣鴻源農業開發有限責任公司)) as a salesperson from October 1998 to October 2000 and a sales and production director from November 2000 to August 2001. He was then engaged in the business of manufacturing and sales of furniture through Ganzhou Jiaye Furniture Co., Limited* (贛州佳業家具有限公司) ("**Ganzhou Jiaye**") in August 2001. Mr. Zeng was a director of Huitong County Fulin Wood Industry Co., Limited* (會同縣富林木業有限公司) ("**Fulin**") *(Note)*.

Mr. Zeng obtained a diploma in social science majoring in law from Southern Institute of Metallurgy (南方冶金學院) (currently known as Jiangxi University of Science and Technology (江西理工大學)) in July 1992.

Mr. Zeng's interest in the Shares as at 31 December 2022 is disclosed under the paragraph headed "Directors' Report – Directors' and Chief Executives' Interests and Short Positions in Shares" in this annual report.

Ms. ZENG Minglan (曾明蘭), aged 49, is an executive Director and the vice chairlady of the Board who is responsible for the formulation of financial strategies, financial management and internal control of the Group. She was appointed as an executive Director on 10 September 2018. Ms. Zeng is also a director of certain subsidiaries of our Group and the sister of Mr. Zeng.

Ms. Zeng has over 24 years of experience in financial management and accounting. Ms. Zeng joined the Group in November 2005. Ms. Zeng worked at Ganzhou Jiaye as financial manager from June 2005 to September 2007. She was also an accountant of Agriculture Bureau of Gan County* (贛縣農業局) from November 1997 to March 2005, mainly responsible for the handling of daily accounting matters. Ms. Zeng was also a committee member of the 15th Longnon County Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議龍南縣第十五屆委員會委員).

Ms. Zeng obtained a certificate in the senior financial director course (online program) from the University of International Business and Economics (對外經濟貿易大學) in May 2013.

Note: Fulin was established in the PRC in September 2004 and was principally engaged in sale, manufacturing and processing of MDFs and plywood prior to its dissolution. The business licence of Fulin was revoked on 9 March 2008 as it did not undergo annual inspection within the specified deadline. Mr. Zeng confirmed that Fulin was solvent before the business licence was being revoked and Mr. Zeng confirmed that no claims had been made against him and he was not aware of any threatened and potential claims made against him as a result of the dissolution of Fulin. Fulin was deregistered on 5 December 2018.

* *For identification purpose only*

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. WU Runlu (吳潤陸), aged 57, is an executive Director and the general manager of the Group who is responsible for the formulation and implementation of the strategies and business plans and overall daily operation management of the Group. He was appointed as an executive Director on 10 September 2018.

Mr. Wu has over 21 years of experience in the manufacturing industry. Mr. Wu joined the Group in January 2018. Before joining our Group, Mr. Wu had held various positions in Huajian Group* (華堅集團) ("**Huajian Group**") which principally engages in the manufacturing of women's shoes, including a supervisor at the administrative centre, the deputy general manager of Huajian International Shoe City (Ethiopia) PLC and the executive deputy general manager of Huabao Footwear Co., Limited* (華寶鞋業有限公司) and Huajian Group, from March 1998 to February 2016. He had also worked as a policeman in Qingshanhu branch of Nan Chang Public Security Bureau* (南昌市公安局青山湖分局) from February 1985 to December 1997, mainly responsible for the implementation of the policies, laws and regulations in public security. Mr. Wu was an executive director, legal representative and general manager of Dongguan City Zuimei Footwear Co., Limited* (東莞市最美鞋業有限公司) ("**Zuimei Footwear**") *(Note)*.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SUEN To Wai (孫多偉), aged 50, is an independent non-executive Director. He was appointed as an independent non-executive Director on 2 December 2020.

Mr. Suen has over 16 years of experience in accounting and financing. He is the independent non-executive Director who has the qualifications and experience to meet the requirements under the Rule 3.10(2) of the Listing Rules. Mr. Suen has been the independent non-executive director of China Zenix Auto International Limited, a company previously listed on the OTC Markets of the U.S. (stock code: ZXAIY) and delisted in January 2022 since April 2018. Mr. Suen has also been the independent non-executive director of Ping An Securities Group (Holdings) Limited, a company listed on the Stock Exchange (stock code: 231), since February 2020 and resigned on November 2022. He is currently an independent non-executive director of MingZhu Logistics Holdings Limited, a company listed on NASDAQ (stock code: YGMZ) and Huajin International Holdings Limited, a company listed on the Stock Exchange (stock code: 2738). He was the company secretary of Asia Energy Logistics Group Limited, a company listed on the Stock Exchange (stock code: 351), from July 2020 to April 2021, the independent non-executive director of CT Environmental Group Limited, a company listed on the Stock Exchange (stock code: 1363), from February 2018 to April 2019, the company secretary of China Smarter Energy Group Holdings Limited, a company listed on the Stock Exchange (stock code: 1004), from February 2017 to April 2019, the company secretary of IDT International Limited, a company listed on the Stock Exchange (stock code: 167), from January 2017 to April 2017 and the chief financial officer and company secretary of China Saite Group Company Limited, a company listed on the Stock Exchange (stock code: 153), from May 2015 to August 2016. He also worked at Deloitte Touche Tohmatsu from January 2001 to 31 January 2012 with his last position as a senior manager.

Mr. Suen is a practising member of the Hong Kong Institute of Certified Public Accountants. Mr. Suen obtained a bachelor's degree in commerce from The University of Western Australia in March 2001.

Note: Zuimei Footwear was principally engaged in the manufacturing and sales of footwear, shoe materials and clothing and the research and development of footwear related technology prior to its dissolution. The business licence of Zuimei Footwear was revoked on 30 July 2014 as it did not undergo annual inspection within the specified deadline. Mr. Wu confirmed that, Zuimei Footwear was solvent when its business licence was revoked and as the latest practicable date, no claims had been made against him and he was not aware of any threatened and potential claims made against him as a result of the dissolution of Zuimei Footwear. Zuimei Footwear was deregistered on 19 November 2018.

* *For identification purpose only*

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. ZHANG Lingling (張玲玲), age 33, was appointed as an independent non-executive Director on 1 April 2022. Ms. Zhang has solid experience in financial analysis, initial public offerings and fund raising in secondary market. Ms. Zhang obtained a bachelor's degree in accounting from Chengdu University of Information Technology in 2013 and a master's degree in Business Administration from the Open University of Hong Kong in 2019. Ms. Zhang obtained the securities qualification certificate of The Securities Association of China, the fund qualification certificate of Asset Management Association of China and the Certification of China Banking Professional. Ms. Zhang is currently the vice president and a representative of Funderstone Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") and a representative of Funderstone Futures Limited, a corporation licensed to carry out Type 2 (dealing in future contracts) regulated activity under the SFO. Ms. Zhang is currently the independent non-executive director of Sterling Group Holdings Limited (stock code: 1825), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. Ms. Zhang has also been an independent non-executive director of Yangzhou Guangling District Taihe Rural Micro-finance Company Limited, a company listed on the Hong Kong Stock Exchange (stock code: 1915), since 19 January 2024.

Mr. FENG Zhaowei (馮昭威), age 41, was appointed as an independent non-executive Director on 7 April 2022. Mr. Feng has strong experience in strategic management and investment. In 2016, Mr. Feng joined Poten Environment Group Co., Ltd. (博天環境集團股份有限公司) (stock code: 603603), a company listed in the Shanghai Stock Exchange, as the deputy general manager of strategic brand department and he worked as the investment director of the investment department from 2018 to 2020, mainly responsible for the strategic investment and overseeing the mergers and acquisition of such company. He is currently the head of strategic development department of Welle Environmental Group Co., Ltd. (維爾利環保科技集團股份有限公司) (stock code: 300190), a company listed on the Shenzhen Stock Exchange, and he is mainly responsible for the internal decision-making and implementation of the strategic development plans of such company and its subsidiaries. Mr. Feng also has strong experience in mechanical and electrical engineering, in particular, Mr. Feng has previously worked in ABB Beijing Drive Systems Co., Ltd., ABB AG and the Shanghai branch of Schneider Electric (China) Co., Ltd. (施耐德電氣(中國)有限公司上海分公司). Mr. Feng obtained a master's degree in electrical power engineering from RWTH Aachen University in February 2011. Mr. Feng is completing a master's degree in business administration in the University of Chicago.

SENIOR MANAGEMENT

Mr. WONG Chun Kwok (黃振國), aged 42, was appointed as the chief financial officer of the Company on 27 October 2021. Mr. Wong has over 18 years of experience in accounting and finance. Mr. Wong currently serves as a non-executive director of DW Consulting Corporation Limited, an independent non-executive director of Universe Printshop Holdings Limited (HKEX:8448) and an independent director of Datasea Inc. (NASDAQ: DTSS). He served as the chief financial officer of Fitness World (Group) Limited from February 2017 to August 2020. He was a senior associate of PricewaterhouseCoopers Limited (PwC) from January 2016 to January 2017. He worked at Moore Stephens Associates Limited (Hong Kong) as a senior associate from October 2010 to December 2015. He was a supervisor of KLC CPA Limited from October 2005 to August 2010.

Mr. Wong is a fellow member of Association of Chartered Certified Accountants and an affiliate member of The Society of Chinese Accountants & Auditors. Mr. Wong obtained his Bachelor of Commerce degree in Accounting from Macquarie University in Sydney, Australia in 2005.

REPORT OF THE DIRECTORS

The Directors are pleased to present the report of the Directors and the audited consolidated financial statements of the Group for FY2023.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 16 March 2018. The principal activity of the Company is investment holding. Details of the business of its major subsidiaries are set out in Note 36 to the consolidated financial statements.

RESULTS AND FINAL DIVIDEND

The results of the Group for FY2023 are set out in the consolidated statement of profit or loss and other comprehensive income on page 61 of this report.

The Board did not recommend the payment of a final dividend for 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 REVIEW

As required by Schedule 5 of the Hong Kong Companies Ordinance (Chapter 622), the Group provides a business review including (i) a fair review of the business of the Group; (ii) a description of the principal risks and uncertainties facing the Company; (iii) particulars of important events affecting the Company that have occurred since the end of FY2023; and (iv) a discussion on the Group's future business development as well as an analysis of the Group's performance during FY2023 using financial key performance indicators and are detailed in the section headed "Chairman's Statement" and "Management Discussion and Analysis" of this report.

REPORT OF THE DIRECTORS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental Protection

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

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

The Environmental, Social and Governance Report which complies with Appendix C2, Environmental, Social and Governance Reporting Guide, to the Listing Rules will be published in conjunction with the publication of this annual report as far as possible.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is principally engaged in the manufacturing of furniture products through its factories in mainland China. The products are mainly exported to the United States. The establishment and business operation of the Group is subject to the laws and regulations of the PRC, the United States and Hong Kong. As far as the Board is aware, the Group has complied in material aspects with all relevant laws and regulations in the aforesaid jurisdictions that have significant impact on the business and operation of the Group.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

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

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2023 and 2022, the Group's reserves available for distribution to Shareholders are as follows:

	2023 (RMB'000)	2022 (RMB'000)
Share premium	**656,736**	656,736
Statutory reserve	**409,559**	401,395
Retained earnings	**3,810,063**	3,611,124
	4,876,358	4,669,255

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

Details of the movements in the reserves of the Group and the Company during FY2023 are set out in Note 34 to the consolidated financial statements.

BORROWINGS

Details of the Group's borrowings from financial institutions as at 31 December 2023 are set out in Note 31 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during FY2023 and up to the date of this report are as follows:

Executive Directors

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

Independent Non-Executive Directors

Mr. Suen To Wai
Ms. Zhang Lingling
Mr. Feng Zhaowei
Ms. Leong Mali *(resigned on 18 January 2023)*
Mr. Zhou Zhongqi *(resigned on 8 February 2023)*

DIRECTORS' SERVICE CONTRACT AND APPOINTMENT LETTER

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

The independent non-executive Director, Mr. Suen To Wai has entered into a letter of appointment with the Company for a term of three years commencing from 2 December 2020 (subject to termination in certain circumstances as stipulated in the relevant letter of appointment).

The independent non-executive Director, Ms. Zhang Lingling, has entered into a letter of appointment with the Company for a term of three years commencing from 1 April 2022 (subject to termination in certain circumstances as stipulated in the relevant letter of appointment).

The independent non-executive Director, Mr. Feng Zhaowei, has entered into a letter of appointment with the Company for a term of three years commencing from 7 April 2022 (subject to termination in certain circumstances as stipulated in the relevant letter of appointment).

The independent non-executive Director, Ms. Leong Mali has resigned on 18 January 2023. The independent non-executive Director, Mr. Zhou Zhongqi has resigned on 8 February 2023.

In accordance with Article 105 of the Articles of Association, Ms. Zhang Lingling and Mr. Feng Zhaowei shall retire from office by rotation at the AGM. Mr. Zeng and Mr. Wu, being eligible, will offer themselves for re-election at the AGM.

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

REPORT OF THE DIRECTORS

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

At no time during FY2023 was there a transaction, arrangement or contract of significance entered into by the Company, any of its subsidiaries, its parent company or a subsidiary of its parent company in which the Directors or an entity related to the Directors or a controlling shareholder of the Company had a material interest, whether directly or indirectly.

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into, existed or subsisted during FY2023.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

During FY2023 and to the date of this report, none of the Directors or the controlling Shareholders or their respective close associates have an interest in a business that competes or may compete with the principle business of the Group, either directly or indirectly.

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

As at 31 December 2023, the interests of the Directors or chief executives in the Shares and underlying shares of the Company and its associated corporations as recorded in the register kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name of Director	**Capacity**	**Number and class of securities** *(Note 1)*	**Percentage of the issued share capital of the Company**
Mr. Zeng Ming ("**Mr. Zeng**")	Interest of controlled corporation	2,045,750,000 (L) *(Note 2)*	66.65%

Notes:

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

2. These 2,045,750,000 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.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 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 and class of securities *(Note 1)*	Percentage of the issued share capital of the Company
Pure Cypress Limited	Beneficial owner	2,045,750,000 (L) *(Note 2)*	66.65%
Mr. Zeng	Interest of controlled corporation	2,045,750,000 (L) *(Note 2)*	66.65%
Ms. Zeng Ronghua ("**Ms. Zeng RH**")	Interest of spouse	2,045,750,000 (L) *(Note 3)*	66.65%

Notes:

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

2. These 2,045,750,000 Shares are held by Pure Cypress Limited, which is wholly owned by Mr. Zeng. Under the SFO, Mr. Zeng will be taken to be interested in the Shares held by Pure Cypress Limited.

3. Ms. Zeng RH is the spouse of Mr. Zeng. Under the SFO, Ms. Zeng RH is taken to be interested in the same number of Shares in which Mr. Zeng is interested.

Save as disclosed above, as at 31 December 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 Shares" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During FY2023, the Group's sales to the five largest customers and the largest customer accounted for approximately 77.1% and 22.3% respectively, of the Group's annual sales revenue, and the Group's purchases from the five largest suppliers and the largest supplier accounted for approximately 15.7% and 4.2% respectively, of the Group's total annual purchases.

REPORT OF THE DIRECTORS

During FY2023, none of the Directors and their close associates, or any Shareholders (known to the Directors own more than 5% of the issued Shares), had any interest in any of the Group's five largest customers or five largest suppliers for FY2023.

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. The Share Option Scheme will remain in force for a period of 10 years commencing on its adoption date, with a remaining life of approximately 8 years.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Company must not in aggregate exceed 10% of the Shares in issue on the Listing Date (the "**General Scheme Limit**"). As at the date of this report, the total number of Shares available for issue under the Share Option Scheme was 85,163,700 Shares, representing 2.31% of the issued share capital of the Company.

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

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may not be less than 12 months but shall end in any event not later than 10 years from the date of grant of the option, subject to the provisions for early termination thereof.

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

REPORT OF THE DIRECTORS

On 14 January 2022, for the benefit of expanding the smart furniture business segment of the Group, the Company has granted a total of 214,836,300 share options to seven eligible participants, being the external consultants of the Group in accordance with the Share Option Scheme and 30,690,900 share options was granted to each of the eligible participant at a price of HK$1.878 per Share. For details, please refer to the announcements of the Company dated 14 January and 12 May 2022.

As at 1 January 2023 and 31 December 2023, there is 85,163,700 option available for grant under the share option scheme mandate. No shares may be issued in respect of options and awards granted under all schemes of the Company during the year ended 31 December 2023 divided by the weighted average number of Shares of the relevant class in issue for the year ended 31 December 2023 was 0%.

Details of movements of the options granted under the Share Option Scheme during the year ended 31 December 2023 are as follows:

Category of participants	Date of grant	Vesting date *(Note 1)*	Exercise period	Exercise price per Share (HK$)	Outstanding as at 1 January 2023	During the year ended 31 December 2023 Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2023	Fair value of the share options granted as at the date of grant (HK$'000) approximately
External consultant *(Note 4)*											
Empire Core Limited	14 January 2022	16 January 2023	16 January 2023 to 14 January 2026	1.878	10,230,300	–	–	–	–	10,230,300	8,197
	14 January 2022	15 January 2024	15 January 2024 to 14 January 2026	1.878	10,230,300	–	–	–	–	10,230,300	8,197
	14 January 2022	14 January 2025	14 January 2025 to 14 January 2026	1.878	10,230,300	–	–	–	–	10,230,300	8,197
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	16 January 2023 to 14 January 2026	1.878	10,230,300	–	–	–	–	10,230,300	8,197
	14 January 2022	15 January 2024	15 January 2024 to 14 January 2026	1.878	10,230,300	–	–	–	–	10,230,300	8,197
	14 January 2022	14 January 2025	14 January 2025 to 14 January 2026	1.878	10,230,300	–	–	–	–	10,230,300	8,197

REPORT OF THE DIRECTORS

Category of participants	Date of grant	Vesting date (*Note 1*)	Exercise period	Exercise price per Share (HK$)	Outstanding as at 1 January 2023	During the year ended 31 December 2023 Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31 December 2023	Fair value of the share options granted as at the date of grant (HK$'000) approximately
贛州橙木科技有限公司 Ganzhou Cheng Wood Technology Co., Ltd.*	14 January 2022	16 January 2023	16 January 2023 to 14 January 2026	1.878	10,230,300	–	–	–	–	10,230,300	8,197
	14 January 2022	15 January 2024	15 January 2024 to 14 January 2026	1.878	10,230,300	–	–	–	–	10,230,300	8,197
	14 January 2022	14 January 2025	14 January 2025 to 14 January 2026	1.878	10,230,300	–	–	–	–	10,230,300	8,197
Cloud Mount Limited 雲登有限公司	14 January 2022	Relevant Vesting Date (*Note 2*)	From the Relevant Vesting Date to 14 January 2026	1.878	30,690,900	–	–	–	–	30,690,900	26,541
Dragon Win Corporation 龍盈有限公司	14 January 2022	Relevant Vesting Date (*Note 2*)	From the Relevant Vesting Date to 14 January 2026	1.878	30,690,900	–	–	–	–	30,690,900	23,616
Aster Blossom Limited	14 January 2022	Relevant Vesting Date (*Note 2*)	From the Relevant Vesting Date to 14 January 2026	1.878	30,690,900	–	–	–	–	30,690,900	23,616
Top Easeway Limited	14 January 2022	Relevant Vesting Date (*Note 2*)	From the Relevant Vesting Date to 14 January 2026	1.878	30,690,900	–	–	–	–	30,690,900	23,616
Total					214,836,300	–	–	–	–	214,836,300	171,165

* *For identification purpose only*

Notes:

1. The vesting of the share options is subject to the fulfilment of certain vesting conditions. For details, please refer to the announcements of the Company dated 14 January and 12 May 2022.

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 Shares closed at HK$1.87 on 13 January 2022, being the date immediately before the date of grant.

REPORT OF THE DIRECTORS

4. These options were granted to the external consultants of the Company (the "**Consultants**"). To the best knowledge of the Directors, the backgrounds of the Consultants are as follows:

Empire Core Limited

Empire Core Limited is independent third parties, and was granted with 30,690,900 options on 14 January 2022 for providing the Group comprehensive consulting services related to smart home product promotion and online sales.

Dongguan Huatai Investment Consulting Service Co., Ltd.

Dongguan Huatai Investment Consulting Service Co., Ltd. is independent third parties, and was granted with 30,690,900 options on 14 January 2022 for providing the Group comprehensive consulting services related to smart home product promotion and direct sales to consumers.

Ganzhou Cheng Wood Technology Co., Ltd.

Ganzhou Cheng Wood Technology Co., Ltd. is independent third parties, and was granted with 30,690,900 options on 14 January 2022 for providing the Group comprehensive consulting services related to smart home product promotion and Business-to-Business sales.

Cloud Mount Limited

Cloud Mount Limited is independent third parties, and was granted with 30,690,900 options on 14 January 2022 for providing the Group comprehensive intelligent IoT platform software technology consulting services.

Dragon Win Corporation

Dragon Win Corporation is independent third parties, and was granted with 30,690,900 options on 14 January 2022 for providing the Group comprehensive capital market strategy consulting services, various capital market operations and financing services, program planning and advisory advice on fundraising projects, including but not limited to introducing strategic business cooperation and/or investment, finding merger and acquisition target projects, and assisting in mergers and acquisitions and other capital Market operations matters and projects.

Aster Blossom Limited

Aster Blossom Limited is independent third parties, and was granted with 30,690,900 options on 14 January 2022 for providing the Group comprehensive consulting services related to whole-house intelligence and household industry intelligence.

Top Easeway Limited

Top Easeway Limited is independent third parties, and was granted with 30,690,900 options on 14 January 2022 for providing the Group full-scenario business intelligence consulting and other services for home products, etc.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any tax relief or exemption to the Shareholders by reason of their holding of the Shares during FY2023.

EQUITY-LINKED AGREEMENTS

During FY2023 and up to the date of this report, no equity-linked agreements have been entered into by the Company apart from the Share Option Scheme.

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

During FY2023, neither the Company nor any of its subsidiaries have purchased, redeemed or sold any of the listed securities of the Company.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group are set out in Note 35 to the consolidated financial statements. None of the related party transactions disclosed in Note 35 in the notes to the consolidated financial statements constitute connected transaction or continuing connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company for FY2023. Accordingly, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

The Board has adopted the code provisions set out in the CG Code as set out in Appendix C1 of the Listing Rules. The Board has reviewed the corporate governance practices of the Company and is satisfied that the Company has complied with the code provisions set out in the CG Code for FY2023.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its Code of Conduct regarding securities transactions by directors, the terms of which are no less than the required standard set out in the Model Code as set out in Appendix C3 of the Listing Rules. After the specific enquiry made by the Company, all Directors of the Company have confirmed that they have complied with the required standard set out in the Model Code regarding the code of conduct for securities transactions by directors for FY2023 and up to the date of this report.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISIONS

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

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

DIVIDEND

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

EMOLUMENT POLICY

A directors' remuneration policy has been adopted. It aims to set out the Company's policy in respect of remuneration paid to executive Directors and non-executive Directors. The Directors' remuneration policy sets out the remuneration structure that allows the Company to attract, motivate and retain qualified Directors who can manage and lead the Company in achieving its strategic objective and contribute to the Company's performance and sustainable growth, and to provide Directors with a balanced and competitive remuneration. The remuneration policy is, therefore, aiming at being competitive but not excessive. To achieve this, remuneration package is determined with reference to a matrix of factors, including the individual performance, qualification and experience of Directors concerned and prevailing industry practice. It will be reviewed and, if necessary, updated from time to time to ensure its continued effectiveness.

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

REPORT OF THE DIRECTORS

RETIREMENT BENEFIT SCHEME

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

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

The Company is not aware of any changes in the Directors' information during FY2023 which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CHARITABLE DONATIONS

During FY2023, the Group made a total of RMB2,006,000 for charitable and other donations (FY2022: RMB1,983,000).

SUFFICIENCY OF PUBLIC FLOAT

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

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established the Audit Committee comprising three independent non-executive Directors of the Company, namely Mr. Suen To Wai, Mr. Feng Zhaowei and Ms. Zhang Lingling. Mr. Suen To Wai is the chairman of the Audit Committee.

The Audit Committee has discussed with the management of the Group and reviewed the audited consolidated financial results of the Group for FY2023, including the accounting standards and practices adopted by the Group, and has also discussed the financial report of the Company and the risk management and internal control mechanism.

AUDITOR

On 21 December 2023, BDO Limited resigned as auditor of the Company and ZHONGHUI ANDA CPA Limited was appointed as the auditor of the Company to fill the casual vacancy and to hold office until the conclusion of the next annual general meeting of the Company.

A resolution for the re-appointment of ZHONGHUI ANDA CPA Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

The consolidated financial statements of the Company for the previous two years ended 31 December 2022 and 2021 were audited by BDO Limited.

REPORT OF THE DIRECTORS

EVENTS 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.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 138 of this report.

On behalf of the Board

Zeng Ming
Chairman

PRC, 22 April 2024

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
HUISEN HOUSEHOLD INTERNATIONAL GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Huisen Household International Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 61 to 137, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Expected credit losses on trade receivables

Refer to note 25 to the consolidated financial statements

As at 31 December 2023, the Group's net trade receivables amounted to approximately RMB1,526,525,000 which represented approximately 23% of total assets of the Group. The Group's expected credit losses ("**ECLs**") recognised on trade receivables as at 31 December 2023 amounted to approximately RMB59,788,000.

The management of the Group applies the simplified approach to calculate ECLs, which is measured at an amount equal to lifetime credit losses. This approach is based on management's estimated loss rates for trade receivables. The estimated loss rates take into account the ageing of the trade receivables, overdue balances and information regarding the ability and intention of the debtor to pay and historical data on default rates and forward looking information.

Management is required to apply judgement in assessing the loss allowance for trade receivables under the ECLs model. The ability of the debtors to repay the Group depends on shared credit risk characteristics of trade receivables groups and market conditions which involves inherent uncertainty.

We identified ECLs assessment of trade receivables as a key audit matter due to the significant of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the ECLs of the Group's trade receivables at the end of the reporting period.

INDEPENDENT AUDITOR'S REPORT

Our audit procedures included, among others:

- Discussing the ECLs assessment with the management and evaluating the methodology and key assumptions adopted by the management in assessing ECLs;

- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry;

- Checking, on a sample basis, the accuracy and relevance of the input data used by the management in capturing the aging of the trade receivables; and

- Checking subsequent settlements of the trade receivables, on a sample basis.

We consider that the Group's ECLs assessment for trade receivables is supported by the available evidence.

Property, plant and equipment

Refer to notes 18 to the consolidated financial statements

The Group tested the amount of property, plant and equipment for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of RMB2,593,335,000 as at 31 December 2023 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

INDEPENDENT AUDITOR'S REPORT

Our audit procedures included, among others:

– Assessing the identification of the related cash generating units;

– Assessing the arithmetical accuracy of the fair value less costs of disposal calculations;

– Assessing the competence, independence and integrity of the external valuer engaged by the Group;

– Obtaining the external valuation reports and communicating with the external valuer to discuss and challenge the valuation process, methodologies used and assumptions applied in the valuation model; and

– Checking key assumptions and input data in the valuation model to supporting evidence.

We consider that the Group's impairment test for property, plant and equipment is supported by the available evidence.

OTHER INFORMATION

The directors of the Company (the "**Directors**") are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:
https://www.hkicpa.org.hk/en/Standards-setting/Standards/Our-views/auditre

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Pang Hon Chung
Audit Engagement Director
Practising Certificate Number P05988
Hong Kong, 22 April 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Revenue	7	**3,640,712**	3,015,191
Cost of sales		**(3,157,399)**	(2,470,417)
Gross profit		**483,313**	544,774
Other revenue	8	**15,430**	32,260
Other gains and losses	9	**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 payments	43	**–**	(714)
Provision for impairment loss on trade receivables, net		**(42,970)**	(9,938)
Finance costs	10	**(23,196)**	(24,971)
Profit before income tax expense	11	**249,345**	389,991
Income tax expense	15	**(46,338)**	(55,523)
Profit and total comprehensive income for the year		**203,007**	334,468
Attributable to:			
Owners of the Company		**207,103**	334,900
Non-controlling interests		**(4,096)**	(432)
		203,007	334,468
Earnings per share for profit attributable to the shareholders of the Company			
– Basic and diluted (RMB cent)	17	**6.75**	10.91

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	18	2,593,335	1,271,395
Right-of-use assets	19	55,050	60,218
Investment properties	20	161,162	–
Intangible assets	21	129,730	12,000
Goodwill	22	106,122	–
Interest in an associate	23	–	–
Prepayments for acquisition of property, plant and equipment and intangible assets	26	339,824	96,771
Deferred tax assets	28	6,688	6,780
Total non-current assets		3,391,911	1,447,164
Current assets			
Inventories	24	877,757	1,041,808
Trade receivables	25	1,526,525	773,158
Prepayments, deposits and other receivables	26	247,738	136,153
Pledged bank deposits	27	114,010	–
Short-term bank deposits	27	13,000	800,000
Cash and bank balances	27	463,355	1,505,808
Total current assets		3,242,385	4,256,927
Total assets		6,634,296	5,704,091
Current liabilities			
Trade and bills payables	29	434,071	188,720
Other payables and accruals	30	83,957	51,095
Borrowings	31	733,596	293,819
Lease liabilities	32	2,920	10,171
Income tax payable		16,362	5,457
Total current liabilities		1,270,906	549,262
Net current assets		1,971,479	3,707,665
Total assets less current liabilities		5,363,390	5,154,829

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Non-current liabilities			
Borrowings	*31*	**90,000**	100,000
Lease liabilities	*32*	**335**	3,255
Deferred tax liabilities	*28*	**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	*33*	**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

The consolidated financial statements on pages 61 to 137 were approved and authorised for issue by the Board of Directors on 22 April 2024 and are signed on its behalf by:

Zeng Ming
Director

Zeng Minglan
Director

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the year ended 31 December 2023

	Attributable to owners of the Company									
	Share capital RMB'000 *(Note 33)*	Capital reserve RMB'000 *(Note 34)*	Share premium RMB'000 *(Note 34)*	Statutory reserve RMB'000 *(Note 34)*	Merger reserve RMB'000 *(Note 34)*	Share option reserve RMB'000 *(Note 34)*	Retained earnings RMB'000 *(Note 34)*	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022	259,018	92,425	656,736	381,574	27,594	–	3,296,045	4,713,392	–	4,713,392
Profit/(loss) for the year	–	–	–	–	–	–	334,900	334,900	(432)	334,468
Transfer from retained earnings to statutory reserve	–	–	–	19,821	–	–	(19,821)	–	–	–
Recognition of equity-settled share-based payments *(Note 43)*	–	–	–	–	–	714	–	714	–	714
Total comprehensive income/ (expense)	–	–	–	19,821	–	714	315,079	335,614	(432)	335,182
Capital injection by non-controlling interest	–	–	–	–	–	–	–	–	3,000	3,000
At 31 December 2022	259,018	92,425	656,736	401,395	27,594	714	3,611,124	5,049,006	2,568	5,051,574
At 1 January 2023	259,018	92,425	656,736	401,395	27,594	714	3,611,124	5,049,006	2,568	5,051,574
Profit/(loss) for the year	–	–	–	–	–	–	207,103	207,103	(4,096)	203,007
Transfer from retained earnings to statutory reserve	–	–	–	8,164	–	–	(8,164)	–	–	–
Total comprehensive income/ (expense)	–	–	–	8,164	–	–	198,939	207,103	(4,096)	203,007
At 31 December 2023	259,018	92,425	656,736	409,559	27,594	714	3,810,063	5,256,109	(1,528)	5,254,581

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Profit before income tax expense		**249,345**	389,991
Adjustments for:			
Depreciation of property, plant and equipment		**119,412**	109,892
Depreciation of right-of-use assets		**5,168**	5,535
Depreciation of investment properties		**6,934**	–
Amortisation of intangible assets		**7,884**	–
Finance costs		**23,196**	24,971
Equity-settled share-based payments		**–**	714
Interest income		**(6,326)**	(21,565)
Provision for impairment loss on inventories		**–**	28,402
Provision for impairment loss on trade receivables, net		**42,970**	9,938
(Gain)/loss on disposal of property, plant and equipment		**(12,706)**	5,867
Operating profits before working capital changes		**435,877**	553,745
Decrease/(increase) in inventories		**164,051**	(854,755)
(Increase)/decrease in trade receivables		**(793,577)**	508,071
Increase in prepayments, deposits and other receivables		**(131,495)**	(68,055)
Increase/(decrease) in trade and bill payables		**244,233**	(169,447)
Increase/(decrease) in other payables and accruals		**13,513**	(35,639)
Cash used in operations		**(67,398)**	(66,080)
Income tax paid		**(26,264)**	(88,456)
Net cash used in operating activities		**(93,662)**	(154,536)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Cash flows from investing activities			
Purchases of property, plant and equipment		**(1,610,444)**	(453,110)
Acquisition of land use rights		**–**	(5,220)
Prepayments for acquisition of property, plant and equipment and intangible assets		**(272,686)**	(96,771)
Acquisition of intangible assets		**(29,640)**	(6,000)
Proceeds from disposal of property, plant and equipment		**32,269**	5
Net cash outflows from acquisition of a subsidiary	*40(a)*	**(157,857)**	–
Placement of short-term bank deposits		**(13,000)**	(800,000)
Release of short-term bank deposits		**800,000**	–
Placement of pledged bank deposits		**(114,010)**	–
Interest received		**20,167**	7,613
Net cash used in investing activities		**(1,345,201)**	(1,353,483)
Cash flows from financing activities	*40(b)*		
Repayment of principal portion of the lease liabilities		**(10,171)**	(9,060)
Proceeds from new borrowings		**686,596**	297,800
Repayment of borrowings		**(256,819)**	(390,013)
Interest paid		**(23,196)**	(24,971)
Capital injection of non-controlling interests into a subsidiary		**–**	3,000
Net cash from/(used in) financing activities		**396,410**	(123,244)
Net decrease in cash and cash equivalents		**(1,042,453)**	(1,631,263)
Cash and cash equivalents at the beginning of year		**1,505,808**	3,137,071
Cash and cash equivalents at the end of year, represented by cash and bank balances		**463,355**	1,505,808

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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 set out in Note 36.

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 issued by the HKICPA, accounting principles generally accepted in Hong Kong, and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3 BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement

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

(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 MATERIAL ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(a) Consolidation (continued)

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

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

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(b) Business combination and goodwill (continued)

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income, the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(d) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over these policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(d) Associates (continued)

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred, they are recognised immediately in profit and loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(e) Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress and freehold land) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Property, plant and equipment (other than construction in progress) are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual rates are as follows:

Owned assets

Buildings	Shorter of 5% or period of the lease term
Leasehold improvement	Shorter of 5% – 20% or period of the lease term
Machineries	10% – 33%
Motor vehicles	20%
Furniture and equipment	20% – 33%
Construction in progress	Nil

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

Owned assets (continued)

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate asset category when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in the profit or loss on disposal.

Property, plant and equipment are tested for impairment by comparing their carrying amounts with their recoverable amounts (see Note 4(q)).

(f) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at cost less accumulated depreciation and impairment losses. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life of 20 years.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property, plant and equipment.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the investment property, and is recognised in profit or loss.

Investment properties are tested for impairment by comparing their carrying amounts with their recoverable amounts (see Note 4(q)).

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(g) Intangible assets

(i) Intangible assets acquired separately

Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

The management determines the estimated useful lives and related amortisation for intangible assets with reference to the estimated periods that the Group intents to derive future economic benefits from the use of these assets. The useful lives and amortisation method are reviewed, and adjusted if appropriate, at the end of each reporting period. Amortisation is provided on a straight-line basis over their useful lives. The principal annual rate is as follows:

Computer software and technology know-how	20%
Customer relationship	20%

(ii) Subsequent expenditure

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

(iii) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the assets is derecognised.

(iv) Impairment of intangible assets

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see Note 4(q)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(g) Intangible assets (continued)

(iv) Impairment of intangible assets (continued)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

(h) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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

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

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

(i) Leases

The Group as a lessee

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(i) Leases (continued)

Right-of-use assets

The right-of-use assets are initially recognised at cost and would comprise:

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

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

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

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

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

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

Lease liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(i) Leases (continued)

Lease liabilities (continued)

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

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

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

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

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

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

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

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

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

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

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

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(i) Leases (continued)

Lease liabilities (continued)

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

The Group as a lessor

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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

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

(j) Financial Instruments

(i) Financial asset

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial Instruments (continued)

(i) Financial asset (continued)

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

Financial assets at amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("**ECL**") on trade receivables and financial assets measured at amortised cost. The ECLs are measured on either of the following bases:

– 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and

– Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has measured loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets, the ECLs are based on the 12 months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial Instruments (continued)

(ii) Impairment loss on financial assets (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to action such as realising security (if any is held); or the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non-credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost including trade and other payables, borrowings and leases liabilities, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(j) Financial Instruments (continued)

(v) Equity instrument

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

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(k) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(l) Revenue recognition (continued)

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

– provides all of the benefits received and consumed simultaneously by the customer;

– creates or enhances an asset that the customer controls as the Group performs; or

– does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Furniture production

The Group is principally engaged in manufacturing and selling of panel furniture, hardware furniture and furniture ornaments. Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a product to a customer.

Customers obtain control of furniture when title passes and the goods have been delivered to a contractually agreed location. Invoices are generated and revenue is recognised at that point in time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(l) Revenue recognition (continued)

(ii) Information technology solutions services

The Group provides information technology solutions services, which include, among others, the development and sale of software systems for corporate use, such as client relationship management, supply chain management and enterprise resources planning, and the provision of system operation and maintenance services to furniture manufacturers in the PRC.

The Group recognises revenue over the time of service delivery as the customers simultaneously receive and consume the benefits of information technology solutions services.

(iii) Other revenue

The Group recognises revenue from sales of trimmed materials when it transfers control over trimmed materials to a customer. Customers obtain control of trimmed materials when titles passes and the goods have been delivered to a contractually agreed location. Invoices are generated and revenue is recognised at that point in time.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(m) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of each of reporting period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income tax.

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(m) Income taxes (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for assets and liabilities that affect neither accounting nor taxable profits, taxable temporary differences arising on investments in subsidiaries where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period, and reflects any uncertainty related to income taxes.

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

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

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

(n) Segment reporting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(n) Segment reporting (continued)

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

(o) Foreign currencies

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Pursuant to the relevant regulations of the government of the PRC, the Group participants in a central pension scheme operated by the local municipal government (the "**Scheme**"), whereby the subsidiaries of the Company in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ingoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

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

At the end of the reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investment properties;

– right-of-use assets; and

– intangible assets

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(q) Impairment of assets (other than financial assets) (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

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

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

(s) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise short-term bank deposits, bank balances and cash are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise short-term bank deposits, bank balances and cash which are not restricted as to use.

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(t) Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expenses when incurred.

(u) Share-based payments

The Group issues equity-settled share-based payments to certain non-employee external consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) of the equity instruments when services are rendered by the counterparty. Throughout the vesting period, the fair value is measured continuously based on the Group's estimate of shares will eventually vest and adjusted if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the Group shall revise the estimate to equal the number of equity instruments that ultimately vested.

(v) Borrowing

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(w) Borrowing costs (continued)

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(x) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

(x) Related parties (continued)

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(y) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5 CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

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

(a) Critical judgements in applying accounting policies

(i) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(a) Critical judgements in applying accounting policies (continued)

(ii) Determination of the method to estimate variable consideration and assessing the constraint for sale of furniture

Certain contracts for the sale of furniture include a right of return that gives rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of furniture with rights of return, given the large number of customer contracts that have similar characteristics.

Before including any amount of revenue in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based in historical experience, business forecast and the current economic environment, as well as the uncertainty being resolved within a short period of time.

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have significant risks or resulting material adjustments to the carrying amounts of assets and liabilities with next financial year for the reporting period are as follows:

(i) Estimated useful lives and residual value of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and residual values for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic view could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

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

(b) Key sources of estimation uncertainty (continued)

(ii) Net realisable value of inventories

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

(iii) Impairment of property, plant and equipment, investment properties, right-of-use assets and intangible assets

Property, plant and equipment, investment properties, right-of-use assets and intangible assets are tested for impairment when indicators exist. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount being fair value less costs of disposal or value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(iv) Impairment of trade receivables and other receivables

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(b) Key sources of estimation uncertainty (continued)

(iv) Impairment of trade receivables and other receivables (continued)

The economic downturn and uncertainties have made these estimates more judgemental, which the Group has taken into account in its determination of applicable ECLs attributable to trade receivable arising from sales to customers on credit term, including the incorporation of forward-looking information to supplement historical credit loss rate. Further information on the impairment assessment on trade receivables is provided in Note 38(a).

(v) Income tax and deferred tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

6 SEGMENT INFORMATION

Operating segments

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6 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
	3,640,712	3,015,191

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6 SEGMENT INFORMATION (CONTINUED)

Information about major customers

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

	2023 RMB'000	2022 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
	2,791,097	2,520,923

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.

7 REVENUE

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

	2023 RMB'000	2022 RMB'000
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	14,821	–
	3,640,712	3,015,191
Timing of revenue recognition		
At a point in time	3,625,891	3,015,191
Over time	14,821	–
	3,640,712	3,015,191

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

8 OTHER REVENUE

	2023 RMB'000	2022 RMB'000
Interest income from bank deposits	**6,326**	21,567
Government grants *(Note)*	**733**	8,406
Rental income	**6,095**	183
Sales of trimmed materials	**2,276**	2,104
	15,430	32,260

Note: Government grants mainly represent grants received from local government authority in the PRC as subsidies to the Group for (a) incentive of industrial development, (b) subsidy for financing the Group's business, and (c) incentive of foreign trade development.

9 OTHER GAINS AND LOSSES

	2023 RMB'000	2022 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)
	44,778	74,753

10 FINANCE COSTS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

11 PROFIT BEFORE INCOME TAX EXPENSE

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

	2023 RMB'000	2022 RMB'000
Auditors' remuneration	**2,000**	2,178
Cost of inventories recognised as expenses *(Note)*	**3,157,399**	2,442,015
Provision for impairment loss on inventories	**–**	28,402
Depreciation charge:		
– Owned property, plant and equipment *(Note 18)*	**119,412**	109,892
– Right-of-use-assets *(Note 19)*	**5,168**	5,535
– Investment properties *(Note 20)*	**6,934**	–
	131,514	115,427
Amortisation charge:		
– Intangible assets *(Note 21)*	**7,884**	–
Equity-settled share-based payments to external consultants *(Note 43)*	**–**	714
Research and development costs	**152,602**	57,318
Employee costs *(Note 12)*	**300,697**	283,643

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.

12 EMPLOYEE COSTS

	2023 RMB'000	2022 RMB'000
Employee costs (including directors' emoluments *(Note 14)*) comprise:		
Wages and salaries	**249,575**	236,215
Contributions to retirement benefits scheme	**39,534**	35,664
Other employee benefits	**11,588**	11,764
	300,697	283,643

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

13 RETIREMENT BENEFITS SCHEMES

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

14 DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) Directors' remuneration

Directors' emoluments is disclosed as follows:

	Notes	Year ended 31 December 2023				
		Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefits scheme RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Executive directors						
Mr. Zeng		–	1,056	12	–	1,068
Ms. Zeng Minglan		–	680	12	–	692
Mr. Wu Runlu		–	840	12	–	852
		–	2,576	36	–	2,612
Independent non-executive directors						
Mr. Suen To Wai		162	–	–	–	162
Ms. Leong Mali	*(ii)*	8	–	–	–	8
Ms. Zhang Lingling	*(iii)*	162	–	–	–	162
Mr. Zhou Zhongqi	*(iv)*	17	–	–	–	17
Mr. Feng Zhaowei	*(iii)*	162	–	–	–	162
		511	–	–	–	511
		511	2,576	36	–	3,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(i) Directors' remuneration (continued)

		Year ended 31 December 2022				
	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefits scheme RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Executive directors						
Mr. Zeng		–	1,056	12	–	1,068
Ms. Zeng Minglan		–	680	12	–	692
Mr. Wu Runlu		–	840	12	–	852
		–	2,576	36	–	2,612
Independent non-executive directors						
Mr. Suen To Wai		154	–	–	–	154
Mr. Lau Jing Yeung William	*(v)*	40	–	–	–	40
Mr. Gao Jianhua	*(v)*	37	–	–	–	37
Ms. Leong Mali	*(ii)*	145	–	–	–	145
Ms. Zhang Lingling	*(iii)*	117	–	–	–	117
Mr. Zhou Zhongqi	*(iv)*	118	–	–	–	118
Mr. Feng Zhaowei	*(iii)*	118	–	–	–	118
		729	–	–	–	729
		729	2,576	36	–	3,341

Notes:

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

(ii) Ms. Leong Mali was appointed as an independent non-executive director on 26 January 2022 and resigned on 18 January 2023.

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

(i) Directors' remuneration (continued)

Notes: (continued)

(iii) Ms. Zhang Lingling and Mr. Feng Zhaowei were appointed as independent non-executive directors on 1 April 2022 and 7 April 2022 respectively.

(iv) Mr. Zhou Zhongqi was appointed as an independent non-executive director on 7 April 2022 and resigned on 8 February 2023.

(v) Mr. Lau Jing Yeung William and Mr. Gao Jianhua resigned as independent non-executive directors on 7 April 2022 and 1 April 2022 respectively.

During the year ended 31 December 2023, none of the directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2022: Nil).

(ii) Five highest paid individuals

The five highest paid individuals of the Group included three directors (2022: three) whose emoluments are reflected in Note 14(i).

The analysis of the emolument of the remaining two highest paid individuals (2022: two) are set out below:

	2023 RMB'000	2022 RMB'000
Salaries and other benefits	**1,027**	1,392
Contributions to retirement benefits scheme	**26**	24
	1,053	1,416

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

	2023	2022
Nil to HK$1,000,000	**2**	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(ii) Five highest paid individuals (continued)

None (2022: none) of the five highest paid individuals waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

(iii) Senior management emolument band

The number of senior management whose remuneration fell within the following band is as follows:

	2023	2022
Nil to HK$1,000,000	**1**	1

15 INCOME TAX EXPENSE

The amount of taxation in the consolidated statement 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	**83**	95
	36,778	61,274
Deferred tax *(Note 28)*	**9,560**	(5,751)
Income tax expense	**46,338**	55,523

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% (2022: 16.5%) on the estimated assessable profits.

15 INCOME TAX EXPENSE (CONTINUED)

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.

The income tax expense for the year can be reconciled to profit before income tax expense as follows:

	2023 **RMB'000**	2022 RMB'000
Profit before income tax expense	**249,345**	389,991
Tax calculated at the PRC EIT statutory tax rate of 25% (2022: 25%)	**62,336**	97,497
Different tax rates applied according to the relevant tax laws	**(2,552)**	(17,732)
Revenue not taxable for tax purposes	**(2,076)**	(188)
Expenses not deductible for tax purposes	**1,313**	4,781
Effect of tax preferential rates granted to the eligible PRC subsidiaries	**(25,336)**	(36,856)
Tax losses/temporary difference not recognised	**13,758**	8,305
Utilisation of unrecognised tax losses	**(1,188)**	(379)
Under-provision in respect of prior years	**83**	95
	46,338	55,523

The weighted average effective tax rate was 18.6% (2022: 14.2%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

16 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).

17 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 (RMB'000)	**207,103**	334,900
Weighted average number of ordinary shares for the purpose of computation of basic and diluted earnings per share	**3,069,090,000**	3,069,090,000
Basic and diluted earnings per share (RMB cent)	**6.75**	10.91

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

18 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Machineries	Motor vehicles	Furniture and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
As at 1 January 2022	393,574	84,408	951,999	5,711	6,325	8,413	1,450,430
Additions	–	64,090	110,964	379	499	277,278	453,210
Disposals	–	–	(24,389)	(141)	–	–	(24,530)
As at 31 December 2022 and 1 January 2023	393,574	148,498	1,038,574	5,949	6,824	285,691	1,879,110
Additions	–	–	5,292	79	5,217	1,618,409	1,628,997
Disposals	(40,472)	–	(95)	–	(173)	–	(40,740)
Acquisition of subsidiaries *(Note 40(a))*	–	–	14	–	–	–	14
Transfer	–	–	40,779	–	–	(40,779)	–
Transfer to investment properties *(Note 20)*	–	–	–	–	–	(168,096)	(168,096)
As at 31 December 2023	353,102	148,498	1,084,564	6,028	11,868	1,695,225	3,299,285
Accumulated depreciation and impairment							
As at 1 January 2022	111,910	14,985	383,619	2,900	3,067	–	516,481
Provided for the year	18,140	4,023	86,178	754	797	–	109,892
Eliminated on disposals	–	–	(18,534)	(124)	–	–	(18,658)
As at 31 December 2022 and 1 January 2023	130,050	19,008	451,263	3,530	3,864	–	607,715
Provided for the year	18,009	7,036	93,107	627	633	–	119,412
Eliminated on disposals	(20,972)	–	(49)	–	(156)	–	(21,177)
As at 31 December 2023	127,087	26,044	544,321	4,157	4,341	–	705,950
Net book value							
As at 31 December 2023	226,015	122,454	540,243	1,871	7,527	1,695,225	2,593,335
As at 31 December 2022	263,524	129,490	587,311	2,419	2,960	285,691	1,271,395

During the year ended 31 December 2023, the addition of construction in progress amounted to approximately RMB1,618,409,000, which included (i) approximately RMB1,003,301,000 for the new production plant in Longnan County, Ganzhou; (ii) approximately RMB606,952,000 for the second phase of the factory of the Group in Nankang, Ganzhou; and (iii) approximately RMB8,156,000 for the upgrade of existing production plant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 (Note 31).

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 (Note 31).

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 (Note 31).

19 RIGHT-OF-USE ASSETS

	Land use right	**Showroom and warehouse**	**Total**
	RMB'000	RMB'000	RMB'000
As at 1 January 2022	42,663	3,817	46,480
Additions	12,181	7,092	19,273
Depreciation for the year	(1,642)	(3,893)	(5,535)
As at 31 December 2022 and 1 January 2023	53,202	7,016	60,218
Depreciation for the year	(1,201)	(3,967)	(5,168)
As at 31 December 2023	52,001	3,049	55,050

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

At 31 December 2023, the Group's land use right with an aggregate carrying amounts of approximately RMB16,787,000 (2022: RMB21,358,000) were pledged to secure banking facilities granted to the Group (Note 31).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

20 INVESTMENT PROPERTIES

	Buildings RMB'000
Cost	
As at 1 January 2022, 31 December 2022 and 1 January 2023	–
Transfer from property, plant and equipment *(Note 18)*	168,096
As at 31 December 2023	168,096
Accumulated depreciation and impairment	
As at 1 January 2022, 31 December 2022 and 1 January 2023	–
Provided for the year	6,934
As at 31 December 2023	6,934
Net book value	
As at 31 December 2023	161,162
As at 31 December 2022	–

	2023 **RMB'000**	2022 RMB'000
Fair value of investment properties	**179,498**	–

All of the Group's investment properties located in the PRC and measured using the cost model.

During the year ended 31 December 2023, the Group transferred the buildings from property, plant and equipment with an aggregate carrying amount of RMB168,096,000 to investment properties upon the completion of construction as the buildings are leased to third parties under operating leases. The average lease term is 5 years. All leases are on a fixed rental basis and do not include variable lease payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

21 INTANGIBLE ASSETS

	Software and technology know-how RMB'000	Customer relationship RMB'000	Total RMB'000
Cost			
At 1 January 2022	–	–	–
Additions – externally acquired	12,000	–	12,000
At 31 December 2022 and 1 January 2023	12,000	–	12,000
Additions – externally acquired	65,414	–	65,414
Arising on acquisition of a subsidiary *(Note 40(a))*	–	60,200	60,200
At 31 December 2023	77,414	60,200	137,614
Accumulated amortisation			
At 1 January 2022, 31 December 2022 and 1 January 2023	–	–	–
Provided for the year	4,874	3,010	7,884
At 31 December 2023	4,874	3,010	7,884
Net book value			
At 31 December 2023	72,540	57,190	129,730
At 31 December 2022	12,000	–	12,000

The Group's intangible assets with carrying amount of RMB129,730,000 (2022: RMB12,000,000) will be fully amortised in 5 years.

22 GOODWILL

	2023 RMB'000
At 1 January 2023	–
Arising on acquisition of a subsidiary *(Note 40(a))*	106,122
Cost and net carrying amount at 31 December 2023	106,122

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("**CGUs**") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated to information technology solution services segment.

The recoverable amounts of the CGUs are determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors of the Company for the next five years with the residual period using the growth rate of 6.92%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's information technology solution services is 14.21%.

23 INTEREST IN AN ASSOCIATE

	2023 RMB'000	2022 RMB'000
Cost of investment in an associate	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

23 INTEREST IN AN ASSOCIATE (CONTINUED)

As at 31 December 2023 and 2022, the Group had interest in the following associate:

Name of associate	Place and date of incorporation/ establishment and form of business structure	Percentage of equity attributable to the Company		Issued and fully paid share capital/ registered capital	Principal activities and principal place of business
		Directly	Indirectly		
Huisen Intelligent (Shenzhen) Technology Co., Limited ("**Huisen Intelligent**")* (匯森智慧(深圳)科技有限公司)	The PRC, 15 September 2022, limited liability company	– (2022: –)	– (2022: 45%)	Registered capital RMB10,000,000 *(Note)*	Inactive

* English name of the associate is translated directly from its corresponding official Chinese name.

Note: Huisen Intelligent was incorporated on 15 September 2022. The registered capital of RMB10,000,000 has to be paid before 2 July 2029. During the year ended 31 December 2023, the Group disposed of its entire equity interest held in Huisen Intelligent to an independent third party at cash consideration of RMB1,000. No capital injection has been made up to the disposal date.

24 INVENTORIES

	2023 RMB'000	2022 RMB'000
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 loss on inventories	**–**	(28,402)
	877,757	1,041,808

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

25 TRADE RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	**1,586,313**	789,976
Less: impairment loss under ECL model, net of reversal	**(59,788)**	(16,818)
	1,526,525	773,158

The Group's trading term 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 RMB'000	2022 RMB'000
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	**525,242**	302,734
	1,586,313	789,976

Movements of impairment loss on trade receivables under ECL model are as follows:

	2023 RMB'000	2022 RMB'000
As at 1 January	**16,818**	6,880
Provision for impairment loss	**42,970**	9,938
As at 31 December	**59,788**	16,818

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 38.

At 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 (Note 31).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

26 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2023 RMB'000	2022 RMB'000
Current			
Prepayments		**4,017**	3,122
Value added tax recoverable		**243,336**	113,920
Interest receivable		**111**	13,952
Other receivables	*(b)*	**274**	5,159
		247,738	136,153
Non-current			
Prepayments for acquisition of property, plant and equipment and intangible assets		**339,824**	96,771
	(a)	**587,562**	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 loss on prepayments, deposits and other receivables (2022: No provision).

(b) Other receivables were neither past due nor impaired for whom there is no recent history of default. These balances are non-interest bearing and are expected to be realised upon their respective expiry dates.

27 PLEDGED BANK DEPOSITS, SHORT-TERM BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2023 RMB'000	2022 RMB'000
Cash at banks and on hand	**463,355**	1,505,808
Pledged bank deposits	**114,010**	–
Short-term bank deposits	**13,000**	800,000
	590,365	2,305,808
Less: Short-term bank deposits with original maturity of more than 3 months	**(13,000)**	(800,000)
Pledged bank deposits *(Note)*	**(114,010)**	–
Cash and cash equivalents	**463,355**	1,505,808

Cash at banks earns and pledged bank deposits interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for half to one year, and earn interest at the respective short-term bank deposit rate. The bank balances are deposited with creditworthy banks with no recent history of default.

Note: As at 31 December 2023, the Group's deposit pledged for bills payables amounted to RMB114,010,000 (2022: Nil) (Note 29).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28 DEFERRED TAX

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

	Deferred research and development expense RMB'000	**Fair value adjustment arising from acquisition of a subsidiary** RMB'000	**Provision for impairment loss on inventories** RMB'000	**Allowance for expected credit loss** RMB'000	**Total** RMB'000
As at 1 January 2022	–	–	–	1,029	1,029
Credited to profit or loss for the year	–	–	4,260	1,491	5,751
As at 31 December 2022 and 1 January 2023	–	–	4,260	2,520	6,780
Acquisition of a subsidiary *(Note 40(a))*	–	(9,006)	–	–	(9,006)
(Charged)/credited to profit or loss for the year	(12,100)	451	(4,260)	6,349	(9,560)
As at 31 December 2023	(12,100)	(8,555)	–	8,869	(11,786)

The following is the analysis of the deferred tax balances (after offset) for the consolidated statement of financial position purposes:

	2023 **RMB'000**	2022 RMB'000
Deferred tax assets	**6,688**	6,780
Deferred tax liabilities	**(18,474)**	–
	(11,786)	6,780

28 DEFERRED TAX (CONTINUED)

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

	2023 RMB'000	2022 RMB'000
Unused tax losses	**160,103**	84,999

Tax losses in the PRC can only be carried forward for a maximum period of five years. The expiry of unused tax losses for which no deferred tax assets have been recognised is as follows:

	2023 RMB'000	2022 RMB'000
Tax losses will expire in 2024	**–**	1,841
Tax losses will expire in 2025	**–**	1,951
Tax losses will expire in 2026	**2,480**	5,283
Tax losses will expire in 2027	**74,035**	75,924
Tax losses will expire in 2028	**83,588**	–
	160,103	84,999

(b) Under the EIT Law and Implementation Regulations, PRC withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to off-shore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. For the Group, the applicable tax rate is 10%. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB3,968,679,000 (2022: RMB3,743,663,000).

The Board of Directors of the Company affirm that the undistributed earnings of the PRC subsidiaries as of 31 December 2023 and 2022 will be reserved for the expansion of operations. Consequently, the Group has not provided for the deferred tax liabilities in respect of withholding tax on the remaining undistributed earnings of the Group's PRC entities as the Group is capable of controlling the timing of reversal of such temporary difference, and it is highly likely that such temporary difference would not be reversed in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

29 TRADE AND BILLS PAYABLES

	2023 **RMB'000**	2022 RMB'000
Trade payables	**263,071**	188,720
Bill payables	**171,000**	–
	434,071	188,720

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

	2023 **RMB'000**	2022 RMB'000
Within six months	**434,071**	188,720

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 (Note 27).

30 OTHER PAYABLES AND ACCRUALS

	2023 **RMB'000**	2022 RMB'000
Payable for purchase of property, plant and equipment	**20,239**	1,686
Other payables	**15,217**	9,729
Other tax payables	**8,906**	1,592
Accruals	**39,595**	38,088
	83,957	51,095

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

31 BORROWINGS

	Notes	2023 RMB'000	2022 RMB'000
Current			
Bank loans due for repayment within one year	*(a), (b)*	**733,596**	292,300
Other loans	*(c)*	**–**	1,519
		733,596	293,819
Non-current			
Bank loans	*(a), (b)*	**90,000**	100,000
Total borrowings		**823,596**	393,819

Notes:

(a) The bank loans are secured by:

(i) the Group's certain buildings and machineries included in property, plant and equipment (Note 18) amounted to RMB329,531,000 (2022: RMB389,724,000);

(ii) corporate guarantee given by a non-related party, in which machineries included in property, plant and equipment (Note 18) amounted to RMB60,244,000 (2022: RMB46,324,000) are pledged to this non-related party;

(iii) registered capital of Huisen Holding Investment (Ganzhou) Co., Limited, a subsidiary of the Company, amounted to US$21,000,000 was pledged for the year ended 31 December 2021 but it was released during the year ended 31 December 2022;

(iv) registered capital of Huisen Holding Investment (Ganzhou) Co., Limited and Ganzhou Huiming Wood Industry Co., Limited, subsidiaries of the Company, amounted to US$27,000,000 and RMB279,696,947 repectively were pledged for the year ended 31 December 2023;

(v) land use right under right-of-use assets (Note 19) amounted to RMB16,787,000 (2022: RMB21,358,000);

(vi) trade receivables (Note 25) amounted to RMB221,285,000 (2022: Nil); and

(vii) personal guarantee given by Mr. Zeng and Ms. Zeng Minglan.

(b) Interest are charged at fixed/floating effective interest rates ranging from 2.45% to 7.40% per annum ("**p.a.**") (2022: 3.40% to 7.60% p.a.).

(c) Other loans of RMB1,519,000 as at 31 December 2022 were secured by the Group's machineries included in property, plant and equipment (Note 18) amounted to RMB16,170,000. Interests were charged at fixed effective interest rates of 0.79% p.a. The principal and accrued interests were fully repaid and the charge was released during the year ended 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

31 BORROWINGS (CONTINUED)

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

	2023 RMB'000	2022 RMB'000
Bank loans		
On demand or within one year	733,596	292,300
More than one year, but not exceeding two years	90,000	100,000
	823,596	392,300
Other loans		
On demand or within one year	–	1,519
Total borrowings	823,596	393,819

32 LEASE LIABILITIES

	2023 RMB'000	2022 RMB'000
Current		
Within one year	2,920	10,171
Non-current		
More than one year, but not exceeding two years	335	2,920
More than two years, but not exceeding five years	–	335
	335	3,255
	3,255	13,426

The leases of the Group are with fixed payments only (2022: fixed payments only). The lease contracts signed by the Group did not contain any extension options exercisable (2022: no extension options exercisable).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

32 LEASE LIABILITIES (CONTINUED)

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

	2023 RMB'000	2022 RMB'000
As at 1 January	**13,426**	9,279
Additions	**–**	13,207
Lease payments	**(10,531)**	(9,602)
Interest expense	**360**	542
As at 31 December	**3,255**	13,426

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

33 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, 31 December 2022, 1 January 2023 and 31 December 2023	10,000,000	1,000,000	844,130
Issued and fully paid			
As at 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	3,069,090	306,909	259,018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34 RESERVES

(a) The Group

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

(b) The Company

	Share premium RMB'000	Share option reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
As at 1 January 2022	656,736	–	(47,568)	609,168
Recognition of equity-settled share-based payment expenses	–	714	–	714
Profit for the year	–	–	70,930	70,930
At 31 December 2022 and 1 January 2023	656,736	714	23,362	680,812
Profit for the year	–	–	7,225	7,225
At 31 December 2023	656,736	714	30,587	688,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

34 RESERVES (CONTINUED)

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

Reserve	Description and purpose
Share premium	Capital injection in excess of the fully paid and issued ordinary shares of the Company.
Capital reserve	Equity-settled share-based transaction incurred as a reward for assistance of listing application of the Company provided by staff of the Company.
Statutory reserve	In accordance with the relevant laws and regulations of the PRC and the articles of association of the subsidiaries of the Company incorporated in the PRC, the subsidiaries in the PRC are required to transfer 10% of their net profit as determined in accordance with accounting rules and regulations of the PRC to the statutory reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before distributions to equity shareholders. This reserve can be utilised in setting off accumulated losses or increase capital and is non-distributable other than in liquidation.
Merger reserve	It represents the difference between the nominal value of shares issued by the Company and the aggregate fully paid registered capital of subsidiaries in the PRC acquired pursuant to the Group Reorganisation for the listing purpose.
Share option reserve	The fair value of the actual or estimated number of unexercised share options granted to external consultants recognised in accordance with the accounting policy adopted for equity-settled share-based payments in Note 4 to the consolidated financial statements.
Retained earnings/ (accumulated losses)	Cumulative net gains and loss recognised in profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

35 HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	2023 RMB'000	2022 RMB'000
Non-current asset			
Interests in subsidiaries	*36*	**–***	–*
Total non-current asset		**–***	–*
Current assets			
Amounts due from subsidiaries		**985,490**	972,401
Cash and cash equivalents		**15**	17
Total current assets		**985,505**	972,418
Total assets		**985,505**	972,418
Current liabilities			
Amounts due to subsidiaries		**36,493**	30,383
Accruals		**1,957**	2,205
Total current liabilities		**38,450**	32,588
Net current assets		**947,055**	939,830
Total assets less current liabilities		**947,055**	939,830
NET ASSETS		**947,055**	939,830
Capital and reserves			
Share capital	*33*	**259,018**	259,018
Reserves	*34*	**688,037**	680,812
Total equity		**947,055**	939,830

* Represents amount less than RMB1,000.

ZENG Ming
Director

ZENG Minglan
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

36 DETAILS OF THE PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation/ establishment and form of business structure	Percentage of equity attributable to the Company in 2023 and 2022 Directly	Indirectly	Issued and fully paid ordinary share capital/ registered capital	Principal activities and principal place of business
Haze Everest Limited (嵐峰有限公司)	BVI, limited liability company	100%	–	Issued and fully paid capital US$1	Investment holding, the BVI
Huisen International Group Limited (匯森國際集團有限公司)	Hong Kong (“**HK**”), limited liability company	–	100%	Issued and fully paid capital HK$1	Investment holding, HK
Huisen Holding Investment (Ganzhou) Co., Limited* (匯森控股投資(贛州)有限公司)	The PRC, limited liability company	–	100%	Registered capital US$27,000,000 (2022: US$23,000,000)	Investment holding, the PRC
Ganzhou Huiming Wood Industry Co., Limited* (贛州匯明木業有限公司)	The PRC, limited liability company	–	100%	Registered capital RMB279,696,947	Development, production and sales of board type furniture, the PRC
Huisen Furniture (Longnan) Co., Limited* (匯森傢俱(龍南)有限公司)	The PRC, limited liability company	–	100%	Registered capital RMB413,820,000	Development, production and sales of ready-to-assemble and knock-down furniture; household accessories and decorations, the PRC
Huisen Mingda (Longnan) Furniture Co., Limited* (匯森明達(龍南)傢俱有限公司)	The PRC, limited liability company	–	100%	Registered capital RMB230,000,000	Development, production and sales of ready-to-assemble and knock-down furniture; household accessories and decorations, the PRC
Weiye Jiankang Technology (Longnan) Co., Limited* (偉業健康科技(龍南)有限公司)	The PRC, limited liability company	–	100%	Registered capital RMB22,035,846	Development, production and sales of steel/ metal type, outdoor and sports-type furniture, the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

36 DETAILS OF THE PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment and form of business structure	Percentage of equity attributable to the Company in 2023 and 2022 Directly	Indirectly	Issued and fully paid ordinary share capital/ registered capital	Principal activities and principal place of business
Ganzhou Aigesen Wood Panel Co., Limited* (贛州愛格森人造板有限公司)	The PRC, limited liability company	–	100%	Registered capital RMB380,000,000	Manufacture of wooden, particle and fiber panels or boards, the PRC
Huisen Smart Home Technology (Longnan) Co., Limited* (匯森智能家居科技(龍南)有限公司)	The PRC, limited liability company	–	100%	Registered capital RMB100,000,000	Trading and sale of upholstered furniture, the PRC
Huisen Household Design Research and Development (Dongguan) Co., Limited* (匯森家居設計研發(東莞)有限公司)	The PRC, limited liability company	–	100%	Registered capital RMB5,000,000	Development and design of smart home products, the PRC
Huisen Zhijia (Beijing) Technology Co., Limited* (匯森智家(北京)科技有限公司)	The PRC, limited liability company	–	77%	Registered capital RMB13,000,000	Design, production and sales of tailor-made furniture; household accessories, the PRC
Huisen Environmental Protection Material Technology (Ganzhou) Co., Limited* (匯森環保材料科技(贛州)有限公司)	The PRC, limited liability company	–	100%	Registered capital RMB200,000,000	Manufacturing of particleboards and medium-density fibreboards, the PRC
Jiangxi Bashen Data Technology Co., Ltd. (“**Jiangxi Bashen**”) (江西八神數據科技有限公司)	The PRC, limited liability company	– (2022: –)	100% (2022: –)	Registered capital RMB11,000,000	Provision of information technology solution services, the PRC

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

37 RELATED PARTY TRANSACTIONS

In addition to the transactions and the balances disclosed elsewhere in these consolidated financial statements, the Company had the following transactions with related parties.

Compensation of key management personnel

The key management personnel of the Group represent directors and other senior management of the Group. Details of the remuneration paid to them during the years ended 31 December 2023 and 2022 are set out in Note 14 to the consolidated financial statements.

38 FINANCIAL RISK MANAGEMENT

The Group's principal financial assets are trade receivables, other receivables, pledged bank deposits, short-term bank deposits and cash and cash equivalents that derive directly from its operations. Principal financial liabilities of the Group include trade payables, other payables, borrowings and lease liabilities. The main purpose of these financial liabilities is to finance the Group's operations.

The Group has not issued and does not hold any financial instruments for trading purposes at the end of the reporting period. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. Generally, the Group utilises conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum.

(a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and deposits with banks.

The Group's customers are mainly reputable corporations and thus credit risk is considered to be low. Credit risk on other receivables is minimal as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by the Group during the reporting period and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level. In response to the economic recession, management has also been performing more frequent reviews of credit limits for customers in regions and industries that are severely impacted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and others receivables. Management is of the opinion that the risk of default by counterparties is material and Note 25 details the loss allowance provision was recognised during the reporting period.

In order to measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss provision is determined as follows:

	Not yet past due RMB'000	Less than 3 months past due RMB'000	Over 12 months past due RMB'000	Total RMB'000
As at 31 December 2023				
Expected loss rate	**3.73%**	**10.54%**	**100%**	
Gross carrying amount	**1,584,988**	**664**	**661**	**1,586,313**
Loss allowance provision	**59,057**	**70**	**661**	**59,788**
As at 31 December 2022				
Expected loss rate	2.10%	2.17%	100%	
Gross carrying amount	487,242	302,734	–	789,976
Loss allowance provision	10,238	6,580	–	16,818

As at 31 December 2023 and 2022, the fair value of trade receivables approximated their carrying amounts. For the year ended 31 December 2023, the directors of the Group considered the effects of economic recession on the structure and credit status of the customers of the Group, and concluded that they were affected based on the information obtained up to the date of this report. As a result, the expected credit loss rates increased during the year ended 31 December 2023 (2022: slightly increased). The maximum exposure to credit risk at the reporting date was the carrying value of each class of receivable mentioned above. The Group does not hold any collateral or other credit enhancement over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

The Group had a concentration of credit risk as certain of the Group's trade receivables were due from the Group's five largest customers as detailed below.

	2023 RMB'000	2022 RMB'000
Five largest customers	**1,277,560**	681,857

The Group's major bank balances are deposited with banks with good reputation and with high credit-ratings assigned by international credit-rating agencies and hence management does not expect any losses from non-performance by these banks.

(b) Liquidity risk

In the management of liquidity risk, the Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants in order to maintain sufficient reserves of cash and adequate committed lines of funding from major banks to meet its liquidity requirements in the short and long term. The liquidity policies have been followed by the Group during the reporting period and are considered to have been effective in managing liquidity risk.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the reporting period.

	Weighted average effective interest rate %	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 years but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
As at 31 December 2023						
Trade and bill payables	N/A	434,071	434,071	434,071	–	–
Other payables and accruals	N/A	75,051	75,051	75,051	–	–
Borrowings	3.97%	823,596	846,669	750,037	96,632	–
Lease Liabilities	5.61%	3,255	3,337	2,996	341	–
		1,335,973	1,359,128	1,262,155	96,973	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

	Weighted average effective interest rate %	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 years but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
As at 31 December 2022						
Trade payables	N/A	188,720	188,720	188,720	–	–
Other payables and accruals	N/A	49,503	49,503	49,503	–	–
Borrowings	5.14%	393,819	412,935	309,526	103,409	–
Lease Liabilities	5.37%	13,426	13,868	10,531	2,996	341
		645,468	665,026	558,280	106,405	341

(c) Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arise from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group fair value interest rate risk.

Other than cash at banks and short-term bank deposits (Note 27), the Group does not have significant interest-bearing assets. Any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group.

The Group's interest rate risk arises primarily from the floating rate borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk.

As at 31 December 2023, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits (through the impact on the Group's bank borrowings which are subject to floating interest rate) by approximately RMB65,000 (2022: RMB230,000). No impact would be on other components of consolidated equity in response to the general increase/decrease in interest rates.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (continued)

The sensitivity analysis as above has been determined assuming that the change in interest rates had occurred at each of reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 25 basis point increase or decrease represents the management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

The policy to manage interest rate risk has been followed by the Group since prior years and is considered to be effective.

(d) Foreign currency risk

Currency risk refers to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign currency risk arises from the Group's assets, which were denominated in a currency other than the functional currency at the end of the reporting period are as follows:

	2023 RMB'000	2022 RMB'000
Denominated in US$		
Trade receivables	**1,502,718**	772,676
Cash and cash equivalents	**2,085**	14,798
Overall net exposure	**1,504,803**	787,474

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Foreign currency risk (continued)

The following table indicates the approximate effect on the profit after income tax expense in response to reasonably possible changes in the foreign exchange rates, with all other variables held constant, to which the Group has significant exposure at the end of the reporting period. The appreciation and depreciation of 1% in RMB exchange rate against US$ represents management's assessment of a reasonably possible change in currency exchange rate over the reporting period.

	Effect on profit after income tax	
	2023	2022
	RMB'000	RMB'000
US$ to RMB		
Appreciation by 1%	**12,791**	6,682
Depreciation by 1%	**(12,791)**	(6,682)

During the reporting period, the Group's financial assets denominated in US$ were mainly trade receivables. Trade receivables were of maturity within 150 days (2022: 90 days).

(e) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during the reporting period.

38 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Capital risk management (continued)

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

	2023 RMB'000	2022 RMB'000
Total debt	**826,851**	407,245
Equity attributable to the owners of the Company	**5,256,109**	5,049,006
Total debt and equity	**6,082,960**	5,456,251
Gearing ratio	**14%**	8%

(f) Fair value

Financial instruments not measured at fair value include pledged bank deposits, short-term bank deposits, cash and cash equivalents, trade receivables, other receivables, trade payables, other payables and accruals and borrowings.

Due to their short term nature, the carrying value of pledged bank deposits, short-term bank deposits, cash and cash equivalents, trade and other receivables and trade and other payables approximates fair value.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

39 SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	2023 RMB'000	2022 RMB'000
Financial assets		
Financial assets at amortised cost (including cash and cash equivalents) – current		
Trade receivables	1,526,525	773,158
Other receivables	385	19,111
Pledged bank deposits	114,010	–
Short-term bank deposits	13,000	800,000
Cash and cash equivalents	463,355	1,505,808
	2,117,275	3,098,077
Financial liabilities		
Financial liabilities at amortised costs – current		
Trade and bills payables	434,071	188,720
Other payables and accruals	75,051	49,503
Borrowings	733,596	293,819
Lease liabilities	2,920	10,171
	1,245,638	542,213
Financial liabilities at amortised costs – non-current		
Borrowings	90,000	100,000
Lease liabilities	335	3,255
	90,335	103,255
	1,335,973	645,468

40 NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of a subsidiary

On 12 May 2023, Ganzhou Huiming Wood Industry Co., Limited (an indirect wholly-owned subsidiaray of the Company) as the purchaser and Ms. Qun Huang and Ms. Min Zhuo as the vendors entered into a sale and purchased agreement in respect of the acquisition of 100% equity interest of Jiangxi Bashen, a company established in the PRC with limited liability for a cash consideration of approximately RMB191,737,000, including cash consideration for the acquisition of RMB160,000,000 pursuant to the relevant sale and purchase agreement and related equity transfer tax of approximately RMB31,737,000 paid to local tax bureau. 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:

	RMB'000
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	(9,006)
	85,615
Goodwill	106,122
	191,737
Satisfied by:	
Cash	191,737
Net cash outflows arising on acquisition:	
Cash consideration paid	(191,737)
Cash and cash equivalents acquired	33,880
	(157,857)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

40 NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(a) 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 proforma 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.

40 NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

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

	Borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
As at 1 January 2022	486,032	9,279	495,311
Changes from cash flows:			
Proceeds from new borrowings	297,800	–	297,800
Repayment of borrowings	(390,013)	–	(390,013)
Repayment of principal portion of the lease liabilities	–	(9,060)	(9,060)
Interest paid	(24,429)	(542)	(24,971)
	369,390	(323)	369,067
Non-cash changes:			
Interest expenses	24,429	542	24,971
Increase in lease liabilities from entering into new leases during the year	–	13,207	13,207
As at 31 December 2022 and 1 January 2023	**393,819**	**13,426**	**407,245**
Changes from cash flows:			
Proceeds from new borrowings	**686,596**	**–**	**686,596**
Repayment of borrowings	**(256,819)**	**–**	**(256,819)**
Repayment of principal portion of the lease liabilities	**–**	**(10,171)**	**(10,171)**
Interest paid	**(22,836)**	**(360)**	**(23,196)**
	800,760	**2,895**	**803,655**
Non-cash changes:			
Interest expenses	**22,836**	**360**	**23,196**
As at 31 December 2023	**823,596**	**3,255**	**826,851**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

41 LEASE ARRANGEMENTS

Operating leases – lessor

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

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

	2023 **RMB'000**	2022 RMB'000
Within one year	**6,626**	165
In the second to fifth year	**25,932**	164
	32,558	329
Initial period of the lease	**2 years to 13 years**	2 years to 13 years

42 CAPITAL COMMITMENTS

At 31 December 2023, the Group had outstanding commitments as follows:

	2023 **RMB'000**	2022 RMB'000
Contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment and intangible assets	**680,942**	114,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

43 SHARE-BASED PAYMENT TRANSACTIONS

On 14 January 2022, the Company granted share options (the "**2022 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.

The vesting of the share options on a particular vesting date is conditional upon the following conditions being satisfied by the relevant Grantee:

<table>
<tr><th>Grantee A</th><th>Grantee B</th><th>Grantee C</th><th>Grantee D</th><th>Grantee E</th><th>Grantee F</th><th>Grantee G</th></tr>
<tr><td colspan="3" rowspan="2">The Grantee A, B and C shall assist the Group to achieve sales target with:

(i) total revenue of not less than RMB20 million for smart furniture products in the PRC during the first year;

(ii) total revenue of not less than RMB30 million for smart furniture products in the PRC during the second year; and

(iii) total revenue of not less than RMB50 million for smart furniture products in the PRC during the third year.

If the Grantee has satisfied the relevant condition on the relevant vesting date, 100% of the share options granted which are expected to vest in the Grantee on the relevant vesting date shall become vested accordingly.

However, if the Grantee has failed to satisfy the relevant condition on the relevant vesting date, all the share option granted which are expected to be vest in the Grantee on the relevant vesting date shall automatically lapse on that date.</td><td>Grantee D shall assist the Group to build an one stop artificial intelligent Internet of Things ("IoT") platform for furniture products marketed under the Group's brand.</td><td>Grantee E shall introduce and assist the Company to (i) complete not less than three strategic cooperation projects with leading enterprise in smart furniture products; (ii) conclude cooperation with not less than six recognised enterprises engaging in smart furniture products supply chain; and (iii) complete at least one fund raising and/or investment project, all of which is subject to the approval by the Company.</td><td>Grantee F shall assist the Group's product to link with smart home devices and to connect to the Group's IoT platform.</td><td>Grantee G shall assist the Group to create a full artificial intelligent solution for furniture products marketed under the Group's brand.</td></tr>
<tr><td colspan="4">If the Grantee has failed to satisfy the relevant condition(s) within 3 years from the Date of Grant, all the share option granted shall automatically lapse.</td></tr>
</table>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

43 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The Company has rebutted the presumption in paragraph 13 of HKFRS 2 for measuring the equity-settled shared-based transaction with the external consultants by reference to the fair value of the 2022 Share Options rather than the fair value of the related services as these services provided to the Group cannot be measured reliably.

	2023		2022	
	Weighted average exercise price HK$	**Number**	Weighted average exercise price HK$	Number
Outstanding at 1 January	**1.878**	**214,836,300**	–	–
Granted during the year	**–**	**–**	1.878	214,836,300
Outstanding at 31 December	**1.878**	**214,836,300**	1.878	214,836,300

Of the total number of options outstanding at 31 December 2023 and 2022, Nil had vested and were exercisable.

The following information is relevant in the determination of the fair value of options granted during the year ended 31 December 2022 under the equity-settled share-based payment transactions by the Group.

Equity-settled	
Option pricing model used	Binomial lattice
Share price at measurement dates (in HK$)	0.300-1.860
Exercise price (in HK$)	1.878
Weighted average expected option life (in days)	1,440
Expected volatility	65.38%-84.55%
Expected dividend growth rate	0%
Risk-free interest rate	1.42%-4.16%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices of comparable companies in the past four years.

The Group did not enter into any equity-settled share-based payment transactions with employees during the current or previous period.

The Group did not recognised any expense (2022: RMB714,000) for the year ended 31 December 2023 in relation to the 2022 Share Options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

44 EVENTS 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 alloted 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.

45 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2024.

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	**2023 RMB'000**
Revenue	3,719,066	3,895,548	5,139,157	3,015,191	**3,640,712**
Profit before income tax expense	670,075	637,859	1,039,020	389,991	**249,345**
Income tax expense	(101,772)	(97,176)	(150,953)	(55,523)	**(46,338)**
Profit for the year	568,303	540,683	888,067	334,468	**203,007**
Profit/(loss) for the year attributable to:					
Owners of the Company	568,303	540,683	888,067	334,900	**207,103**
Non-controlling interests	–	–	–	(432)	**(4,096)**
	568,303	540,683	888,067	334,468	**203,007**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	**2023 RMB'000**
Non-current assets	1,017,253	948,793	989,344	1,447,164	**3,391,911**
Current assets	2,369,947	4,034,866	4,696,899	4,256,927	**3,242,385**
Current liabilities	891,902	794,226	851,088	549,262	**1,270,906**
Net current assets	1,478,045	3,240,640	3,845,811	3,707,665	**1,971,479**
Total assets less current liabilities	2,495,298	4,189,433	4,835,155	5,154,829	**5,363,390**
Non-current liabilities	126,401	249,084	121,763	103,255	**108,809**
Net assets	2,368,897	3,940,349	4,713,392	5,051,574	**5,254,581**
Capital and reserves					
Share capital	9	253,239	259,018	259,018	**259,018**
Reserves	2,368,888	3,687,110	4,454,374	4,789,988	**4,997,091**
Equity attributable to owners of the Company	2,368,897	3,940,349	4,713,392	5,049,006	**5,256,109**
Non-controlling interests	–	–	–	2,568	**(1,528)**
Total equity	2,368,897	3,940,349	4,713,392	5,051,574	**5,254,581**