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

# 2021 ANNUAL REPORT

# CONTENTS

# CORPORATE INFORMATION

### Executive Directors

Mr. Zeng Ming (Chairman)
Ms. Zeng Minglan
Mr. Wu Runlu
Mr. Su Xinlin
(Resigned with effect from 27 October 2021)

### Independent non-executive Directors

Mr. Suen To Wai
Mr. Lau Jing Yeung William
(Resigned with effect from 7 April 2022)
Mr. Gao Jianhua
(Resigned with effect from 1 April 2022)
Ms. Leong Mali
(Appointed with effect from 26 January 2022)
Ms. Zhang Lingling
(Appointed with effect from 1 April 2022)
Mr. Feng Zhaowei
(Appointed with effect from 7 April 2022)
Mr. Zhou Zhongqi
(Appointed with effect from 7 April 2022)

### Audit Committee

Mr. Suen To Wai (Chairman)
Mr. Lau Jing Yeung William
(Resigned with effect from 7 April 2022)
Mr. Gao Jianhua
(Resigned with effect from 1 April 2022)
Ms. Leong Mali
(Appointed with effect from 26 January 2022)
Ms. Zhang Lingling
(Appointed with effect from 1 April 2022)

### Remuneration Committee

Mr. Suen To Wai (Chairman)
Mr. Lau Jing Yeung William
(Resigned with effect from 7 April 2022)
Mr. Su Xinlin
(Resigned with effect from 27 October 2021)
Ms. Zeng Minglan
(Appointed with effect from 27 October 2021)
Ms. Leong Mali
(Appointed with effect from 26 January 2022)
Mr. Feng Zhaowei
(Appointed with effect from 7 April 2022)

### Nomination Committee

Mr. Feng Zhaowei (Chairman)
(Appointed with effect from 7 April 2022)
Mr. Lau Jing Yeung William
(Resigned with effect from 7 April 2022)
Mr. Suen To Wai
Mr. Zeng Ming
Ms. Leong Mali
(Appointed with effect from 26 January 2022)

### Corporate Governance Committee

Mr. Suen To Wai (Chairman)
Mr. Lau Jing Yeung William
(Resigned with effect from 7 April 2022)
Mr. Su Xinlin
(Resigned with effect from 27 October 2021)
Ms. Zeng Minglan
(Appointed with effect from 27 October 2021)
Ms. Leong Mali
(Appointed with effect from 26 January 2022)

### Risk Management Committee

Mr. Zeng Ming (Chairman)
Ms. Zeng Minglan
Mr. Gao Jianhua
(Resigned with effect from 1 April 2022)
Ms. Leong Mali
(Appointed with effect from 26 January 2022)

### Company Secretary

Ms. Chan Sau Ling

### Authorised Representatives

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

### Registered Office

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

# CORPORATE INFORMATION

**Headquarters and Place of Business in the PRC**
Huisen Road
Daluo Industrial Park
Longnan Economic Technology Development Zone
Longnan County
Jiangxi Province
PRC

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

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

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

**Auditor**
BDO Limited

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

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

**Compliance Adviser**
Elstone Capital Limited

**Company Website**
www.jxhmgroup.com

# CHAIRMAN'S STATEMENT

**Mr. Zeng Ming**
*Chairman*

Dear Shareholders:

On behalf of the board of directors (the "**Board**") of Huisen Household International Group Limited (the "**Company**", together with the subsidiaries, the "**Group**" or the "**Huisen Group**"), I am pleased to present the annual report of the Group for the year ended 31 December 2021 ("**FY2021**").

As the time is changing fast, FY2021 has been behind us in a short while. We have walked through the past and are aiming higher for the future. Without doubt, FY2021 is an important time notch to connect the past and the future for the Group. Since the listing of the Group on 29 December 2021 (the "**Listing Date**"), we have continued to increase the production capacity of the Group through a refined management of our existing factories with the intensification and sophistication of our existing business on one hand and promote the economic development of the Group to a new level by promoting fundraising and investment projects to explore the room for growth on the other hand.

## CHAIRMAN'S STATEMENT

In FY2021, the outbreak of the coronavirus ("**COVID-19**") pandemic continues to spread in various parts of the world. The pandemic prevention measures worldwide, however, were getting more developed as time goes on. The world economy was under recovery in mid of the ups and downs. The property markets in European countries and the United States continued to be strong, leading to a burst of demand for furniture products industry. The position of China as the world factory was strengthening in FY2021. In particular, as China continues to effectively control the spread of the COVID-19 pandemic, together with exports soaring to record high. According to the National Bureau of Statistics of China, China's gross domestic product (GDP) recording a growth of 8.1% which met the target set by the PRC government last year. The Group seized this favourable opportunity to reach higher growth rate in 2021. Compared with the year ended 31 December 2020 ("**FY2020**"), the revenue of the Group increased by approximately 31.9% to reach RMB5.14 billion with the net profit increased by approximately 64.2% to over RMB800 million which was the best results in the record so far.

To meet the diversified needs of consumers constantly, the Group was dedicated to innovation and had been launching new products. The sales generated from newly launched products in FY2021 reached approximately RMB950 million in FY2021, accounting for 18.5% of the total revenue in FY2021.

In terms of sales regions, revenue from the United States accounted for approximately 67.3% of total sales for FY2021, which was the largest proportion recorded among all sales regions.

In FY2021, the revenue from Singapore, mainland China, Malaysia, Vietnam and Canada increased by approximately 34.9%, 13.8%, 33.4%, 44.7% and 74.2% respectively. The Group has been working hard to expand its sales to location other than United States, especially in Southeast Asia and North America.

With respect to fundraising and investment projects, despite the recurrence of the COVID-19 outbreak in various parts of mainland China in FY2021, the Group had overcome the difficulties and got off to a good start.

Looking ahead in the year ending 31 December 2022 ("**FY2022**"), with the increase rate of vaccination for COVID-19 and the accumulated experience for prevention and control COVID-19 worldwide, as well as the increase of disposable income per capita, it is expected that the consumer demand for furniture will continue to grow.

The hard times is ending and the time to strive for economic recovery has come. In FY2022, the Group is well prepared for future challenges by learning from the past and forging the future, promoting fundraising and investment projects in full swing, improving the research and development ("**R&D**") and production capabilities in all aspects and keep cultivating mid-to-high-level talents.

## CHAIRMAN'S STATEMENT

Technology is the fundamental production power. R&D and innovation are in the blood of the Group for constant development and strengthening. In 2021, two subsidiaries of the Group, Huisen Home Design and Development (Dongguan) Co., Ltd.* (匯森家居設計研發（東莞）有限公司) ("**Huisen Home Design and Development**") and Huisen Zhijia (Beijing) Technology Co., Ltd.* (匯森智家（北京）科技有限公司) ("**Huisen Zhijia**"), were established to focus on the R&D of practical and smart home products. Since the beginning of 2022, we are closely cooperating with Jiangxi University of Science and Technology (江西理工大學) to promote the prevalence of R&D for smart home, so that we can fully utilise the favourable regional position of Huisen Home Design and Development and Huisen Zhijia, attract mid to high-level talents, and promote the R&D of smart home control systems, smart home appliances, big-data platforms and online sales platform. In addition, we will continue to delve into the innovation of panel-type furniture and upholstered furniture products and keep launching innovative products to lead the market consumption trend.

In respect of production, the Group will continue to delve into and utilise the potential of the existing factories, promote the renewal and renovation of the machines and facilities and constantly raise the operational management efficiency of the existing factories; at the same time strive to accelerate the construction process for the new manufacturing factory in Longnan and the procurement of the equipment and speed up the process for obtaining the land for the new factory which will be devoted to be production of particleboards.

Talents are the cornerstones for the development of the Group. We will further promote loyalty, responsibility, gratitude and willing to serve as the core value of the Group, carry on the improvement of the working environment of employees, enrich the spiritual and cultural activities of employees, enhance the cohesion and morale of the group, and continue to attract talents with a competitive remuneration package and excellent company culture.

We have witnessed the growth of our Group, with passion, rationality, and a spirit to take on challenges with 16 years of highs and lows. Our vision is to let everyone enjoy a comfortable and wonderful life at home and this is our initial intention and the goal we are fighting for. It is a long and hard way to go, but we will make it when we carry on.

Lastly, I would like to thank our investors, clients, suppliers, and staff of the Group for your support throughout the year and to thank all of our partners for your support and encouragement.

The right companions on the way weigh higher than the destination we need to reach in the far end. We believe that our vast investors, clients, suppliers, and staff members of the Group can get over the economic and industrial cycle and welcome the power of value appreciation when you choose to work hand-in-hand with us, the Huisen Group.

**Mr. Zeng Ming**
*Chairman*
**Huisen Household International Group Limited**

Hong Kong, 25 March 2022

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

In FY2021, various difficulties such as the recurrence of the COVID-19 pandemic, the rising cost of labour, and global shortage of intermodal container that hit our customers in waves that challenged the furniture industry. A new variant strain of COVID-19, Omicron, has blurred the future of the world's economic recovery.

Although China and the world's major economies, including developed countries such as Europe and the United States, were recovering gradually, the mutation of the COVID-19 has led to the recurrence of the pandemic and some parts of the world are still plagued by the COVID-19 pandemic, resulting in the closure or interruption of factory production; with the success achieved in the prevention of pandemic in China, resumption of work and production were successfully sped up in various industries, which led the products manufactured in China to become more popular around the world. With the quantitative easing monetary policy of Europe and the United States, the real estate market of the developed economies, especially the United States, was thriving, which led to a surging growth of the furniture industry. China's furniture exporters further attracted orders from countries around the world, ushering in an opportunity for a rapid growth.

The high-quality-approach development and proactive measure in response to the COVID-19 pandemic from the furniture enterprises have achieved good results in both export and domestic sales in FY2021. In FY2021, the export value of furniture products and parts manufactured in China reached to approximately RMB477.19 billion, a year-on-year increase of approximately 18.2%, according to the statistics of the General Administration of Customs.

## BUSINESS REVIEW

During FY2021, the Group has been constantly uncovering the potential of our existing factories to increase our production capacity without relaxing the preventive measures adopted for the pandemic and continue to put effort to safeguard the lives and safety of our staff; on the other hand, the Group also accelerated the implementation of fundraising and investment projects. Although the operation of the Group was still affected by the outbreak of the COVID-19 pandemic in some provinces of China from time to time, various fundraising and investment projects were off to a good start. During FY2021, both production and sales of the Group have been achieved considerable growth.

During FY2021, the Group was principally engaged in the manufacturing and selling of panel-type furniture, upholstered furniture, sport-type furniture and customised furniture; while we ceased the production of outdoor furniture, which was mainly due to (1) the decrease in the number of orders for outdoor recreational equipment as outdoor activities were greatly reduced during the outbreak of COVID-19 pandemic; and (2) the outdoor recreational equipment production facilities took up more space than other furniture products of the Group. In order to increase the efficiency of the manufacturing facilities, the Group had adjusted the product portfolio and ceased the production of outdoor recreational equipment and reserved more space for manufacturing panel-type furniture and upholstered furniture. The furniture products of the Group were mainly sold in wholesale to overseas markets such as the United States and including direct sales orders from overseas retail chain stores or through furniture traders.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW — CONTINUED

In FY2021, the Group continued to strengthen its design capability and launch more original design manufacturing ("**ODM**") products. During FY2021, the sales of ODM products accounted for more than 82% of the Group's revenue (FY2020: approximately 80.0%), and the proportion of sales of ODM products maintained an increase for four consecutive years.

As the global economy was hit hard by the COVID-19 pandemic, some of the small and medium-sized furniture traders reduced their orders. The Group has continued with the same business strategies as adopted in FY2020, such as strategically focusing on maintaining the relationship with customers such as overseas retail chain stores and furniture traders, prudently expanded business with small and medium-sized enterprises and maintained a high-quality customer base. The number of customers of the Group in FY2021 was relatively stable compared to FY2020. In FY2021, the sales to the top five customers increased to a large extent, and the sales growth rate to the top five customers exceeded 30%. The Group is also actively negotiating with the world's largest home furnishing chain store companies. During FY2021, our Group has entered into a cooperation agreement with a well-known home furnishing chain store company in the United States. The Group passed the factory quality control requested by this company and has started sales since January 2022.

On 23 April 2021, Huisen Smart Home Technology (Longnan) Co., Limited* (匯森智能家居科技(龍南)有限公司) (as a buyer), an indirect wholly-owned subsidiary of the Group, has entered into a contract for the grant of the land use rights of state-owned construction land* (國有建設用地使用權出讓合同), with Natural Resources Bureau of Longnan City* (龍南市自然資源局) (as the seller), for the acquisition of the state-owned land use rights for a parcel of land (the "**Land**") with a total site area of approximately 233,736 square metres located in Trading Logistics Park, Longnan City, Ganzhou, Jiangxi Province, the PRC for a consideration of RMB20,802,600. The acquisition of Land is for the construction of new manufacturing factories specialised in the production of panel-type furniture and upholstered furniture. Please refer to the voluntary announcement of the Company dated 26 April 2021 for further details.

On 16 June 2021, the Group has entered into a strategic cooperation agreement with Jiangxi University of Science and Technology* (江西理工大學) to further enhance the cooperation in relation to the research and development of smart furniture, including but not limited to professional and technical personnel training provided by Jiangxi University of Science and Technology to the staff of the Group and the establishment of the Smart Furniture Research Institute* (智能家具研究院) to focus on the research and development of smart furniture and prefabricated decoration. Please refer to the voluntary announcement of the Company dated 16 June 2021 for further details.

On 6 January 2022, the Group has entered into an agreement with the local government authority to obtain the right to use for two pieces of lands (totally 33,539.30 square metres) in Nankang District, Ganzhou for the construction of a new factory which will be devoted to the production of particleboards and is in close proximity to the factory operated by Ganzhou Aigesen Wood Panel Co., Limited* (贛州愛格森人造板有限公司). For further details regarding the construction of the new factory, please refer to the prospectus of the Company dated 14 December 2020 (the "**Prospectus**").

* *For identification purpose only*

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

During FY2021, the revenue of the Group amounted to approximately RMB5,139 million, representing an increase of approximately 31.9% as compared to approximately RMB3,896 million in FY2020, while the net profit recorded an increase of approximately 64.2% as compared to FY2020. It was mainly due to the increase of overall gross profit margin contributed by the increase in the average selling price of some products and the overall increase in sales volume.

Revenue and Gross Profit Margin by Product Types:

| | **FY2021** | | | FY2020 | | | |
|---|---|---|---|---|---|---|---|
| | **Revenue (RMB'000)** | **Proportion (%)** | **Gross Profit Margin (%)** | Revenue (RMB'000) | Proportion (%) | Gross Profit Margin (%) | Change in Revenue (%) |
| Panel-type furniture | **4,829,553** | **94.0** | **24.9** | 3,606,286 | 92.6 | 23.7 | 33.9 |
| Upholstered furniture | **155,134** | **3.0** | **34.1** | 129,879 | 3.3 | 33.4 | 19.4 |
| Outdoor/sport-type furniture | **154,470** | **3.0** | **29.3** | 159,383 | 4.1 | 28.0 | (3.1) |
| Total | **5,139,157** | **100.0** | **25.3** | 3,895,548 | 100.0 | 24.2 | 31.9 |

In FY2021, the Group's overall revenue increased by approximately 31.9%. The increase in revenue of panel-type furniture and upholstered furniture was mainly due to the benefit from the robust demand from the European and the American markets. Revenue from outdoor/sport-type furniture dropped mainly because the Group ceased to produce outdoor recreational furniture in FY2021.

#### 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 FY2021, the revenue of panel-type furniture increased by approximately 33.9%, which was mainly due to the surging demand for panel-type furniture from the European and American markets in FY2021. The gross profit margin of panel-type furniture recorded a slight increment due to the higher gross profit margins from some of our newly launched products, as well as the increase in average selling prices for some of our existing products, which partially offset the impact of the depreciation of the U.S. dollar against the RMB.

#### Upholstered Furniture

Leveraging on the expertise and experience on product design, R&D as well as the business relationships with major overseas retail chains and furniture traders, we further expanded the sales of upholstered furniture to new markets. The Group's upholstered furniture mainly includes sofas. During FY2021, the revenue of upholstered furniture amounted to approximately RMB155.1 million, representing an increased by approximately 19.4%, which was mainly due to increasing demand from the customers. The gross profit margins for both FY2020 and FY2021 were relatively stable, and certain products with high gross profit margin recorded a higher sales.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW — CONTINUED

### Outdoor/sport-type Furniture

Outdoor/sport-type furniture mainly comprises of outdoor recreational furniture, sports and recreational equipment. Sports and recreational equipment mainly include table tennis tables and pool tables. During FY2021, the revenue from sport-type furniture amounted to approximately RMB154 million, representing a decrease of approximately 3.1% from FY2020. The gross profit margin increased from approximately 28.0% for FY2020 to approximately 29.3% for FY2021, which was mainly due to the increase in the average selling prices of certain products and cessation of production and selling of outdoor recreation furniture with low gross profit margin in FY2021.

### 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 FY2021 and FY2020:

| | **FY2021** | | FY2020 | | Change |
|---|---|---|---|---|---|
| | **(RMB'000)** | **(%)** | (RMB'000) | (%) | (%) |
| United States | **3,457,208** | **67.3** | 2,613,090 | 67.1 | 32.3 |
| The PRC | **247,608** | **4.8** | 217,494 | 5.6 | 13.8 |
| Singapore | **221,285** | **4.3** | 164,096 | 4.2 | 34.9 |
| Malaysia | **146,093** | **2.8** | 109,511 | 2.8 | 33.4 |
| Vietnam | **119,188** | **2.3** | 82,369 | 2.1 | 44.7 |
| Canada | **128,272** | **2.5** | 73,640 | 1.9 | 74.2 |
| Other locations | **819,503** | **16.0** | 635,348 | 16.3 | 29.0 |
| Total | **5,139,157** | **100.0** | 3,895,548 | 100.0 | 31.9 |

Revenue generated from sales to the United States is still the most significant among all the geographical locations. The revenue derived from the sales of furniture product with the United States as the delivery destination increased by approximately 32.3% during FY2021 compared to FY2020 and the sales ratio to our total revenue increased from approximately 67.1% for FY2020 to approximately 67.3% for FY2021, representing an increase of approximately 0.2%, which was mainly due to the increase in furniture demand driven by the growth in the real estate market in the United States. Sales in the PRC increased by approximately 13.8%, which was mainly due to the strategies adopted by the Group for the expansion of sales to customers from the PRC during FY2021. The revenue generated from sales to Malaysia, Vietnam, and Canada as delivery destination also achieved higher growth during FY2021 as compared to FY2020, mainly due to the Group's efforts to expand sales outside the United States.

## 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 FY2021 and FY2020:

| Name of Customer | FY2021 | | FY2020 | | |
|---|---|---|---|---|---|
| | Revenue (RMB'000) | Proportion (%) | Revenue (RMB'000) | Proportion (%) | Change (%) |
| Customer A | 1,294,106 | 25.2 | 957,298 | 24.6 | 35.2 |
| Customer C | 1,021,921 | 19.9 | 778,799 | 20.0 | 31.2 |
| Customer E | 799,672 | 15.6 | 602,234 | 15.5 | 32.8 |
| Customer D | 705,858 | 13.7 | 524,618 | 13.5 | 34.5 |
| Customer B | 639,573 | 12.4 | 480,325 | 12.3 | 33.2 |
| Total | 4,461,130 | 86.8 | 3,343,274 | 85.9 | 33.4 |

A stable and long-term business relationship 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 in particular, the Group has established a direct and stable long-term business relationship with Walmart Group since 2012. As a result, the sales of the top 5 customers during FY2021 have recorded an increase of approximately 33.4% compared to FY2020, and the revenue from the top five customers of the Group accounted for approximately 86.8% of the total revenue for FY2021, representing an increase of approximately 0.9% from approximately 85.9% for FY2020.

### Sales of ODM and Original Equipment Manufacturing ("OEM") Furniture: (Exclude Panels Boards or customised household products)

| | FY2021 (RMB'000) | (%) | FY2020 (RMB'000) | (%) | Change (%) |
|---|---|---|---|---|---|
| ODM | 4,222,757 | 82.5 | 3,106,141 | 80.0 | 35.9 |
| OEM | 895,447 | 17.5 | 775,715 | 20.0 | 15.4 |
| Total | 5,118,204 | 100.0 | 3,881,856 | 100.0 | 31.8 |

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 FY2021, sales from ODM increased by approximately 35.9% compared to FY2020 and accounted for approximately 82.5% of the total revenue with an increase of approximately 2.5% from FY2020. The remaining were arisen from OEM business with an increase of approximately 15.4% while its proportion accounted for the total revenue decreased to approximately 17.5% compared to approximately 20.0% in FY2020.

## 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).

| | **FY2021 (RMB'000)** | FY2020 (RMB'000) | Change (%) |
|---|---|---|---|
| Cost of all material consumed | **3,213,357** | 2,444,670 | 31.4 |
| Direct labour | **236,467** | 191,729 | 23.3 |
| Subcontracting fees | **32,056** | 16,848 | 90.3 |
| Overhead costs | **358,072** | 298,156 | 20.1 |
| Total | **3,839,952** | 2,951,403 | 30.1 |

The Group's cost of sales during FY2021 increased by approximately 30.1% from approximately RMB2,951 million in FY2020 to approximately RMB3,840 million in FY2021, which was in line with the increase in revenue. The subcontracting fee increased by approximately 90.3% mainly due to the significant increase in orders from customers during FY2021, which increased the need of subcontracting of manufacturing works to ensure a timely delivery of the products.

#### Other Gains and Losses

Other gains and losses include the following:

| | **FY2021 (RMB'000)** | FY2020 (RMB'000) |
|---|---|---|
| Exchange losses, net | **38,617** | 85,308 |
| Losses on disposal of property, plant and equipment | **15,529** | 4,027 |
| Total | **54,146** | 89,335 |

During FY2020, the exchange rate of U.S. dollar against RMB fluctuated significantly, while it was relatively stable during FY2021. Generally, the exchange rate of U.S. dollar against RMB showed a downward trend but was less volatile when compared with the situation in FY2020. As a result, the Group encountered less exchange loss during FY2021 than in FY2020. A higher disposal loss of property, plant and equipment was recorded during FY2021 as a higher number of aged equipment was disposed of. Whereas, the Group ensures the production efficiency by the renewal, modification and purchase of new equipment.

## FINANCIAL REVIEW — CONTINUED

### Use of Net Proceeds from the Global Offering

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

| | **Net proceeds** (HK$ million) (approximately) | **Percentage of net proceeds** (%) (approximately) | **Actual amount utilised as of 31 December 2021** (HK$ million) (approximately) | **Actual amount of unutilised net proceeds as of 31 December 2021** (HK$ million) (approximately) | **Expected date for fully utilisation of unutilised net proceeds** |
|---|---|---|---|---|---|
| Establishment of a new manufacturing compartment to manufacture panel-type furniture and upholstered furniture | 636 | 45.4% | 28 | 608 | On or before 30 June 2023 |
| Construction of the second phase of the factory of the Group in Nankang, Ganzhou, Jiangxi Province, China | 463 | 33.0% | 1 | 462 | On or before 30 June 2023 (Note) |
| Upgrading the production line in the existing production facilities by acquiring more advanced and automated machineries and equipment for the factory of the Group located in Longnan City, Ganzhou, Jiangxi Province, China | 70 | 5.0% | 70 | – | N/A |
| Enhancing the product design, research and development capabilities | 93 | 6.6% | 7 | 86 | On or before 31 December 2022 |
| General replenishment of working capital and other general corporate purpose | 140 | 10.0% | 140 | – | N/A |
| Total | 1,402 | 100.0% | 246 | 1,156 | |

*Note:* As of the date of this report, the Board is aware that there has been a delay in the expected timeline for the use of proceeds when compared to the implementation plan as disclosed in the Prospectus. The delay in use of proceeds is mainly due to the land for the second phase of the factory in Nankang is still pending for the PRC government's approval, therefore the construction of the second phase of the new factory has been delayed.

During FY2021, the unutilised net proceeds of the Group were being kept in banks and authorised financial institutions in Hong Kong and the PRC.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW — CONTINUED

### Summary of Consolidated Statement of Cash Flow

| | **FY2021 (RMB'000)** | FY2020 (RMB'000) | Change (%) |
|---|---|---|---|
| Operating profits before working capital changes | **1,185,540** | 792,821 | 49.5 |
| Change in working capital | **157,532** | (54,486) | 189.1 |
| Income tax paid | **(152,395)** | (87,445) | 74.3 |
| Net cash generated from operating activities | **875,613** | 650,890 | 34.5 |
| Net cash generated used in investing activities | **(146,239)** | (25,971) | 463.1 |
| Net cash generated (used in)/from financing activities | **(240,151)** | 938,293 | (125.6) |

As of 31 December 2021, the bank balances and cash of the Group were approximately RMB3,137 million (2020: approximately RMB2,648 million).

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 2021, the Group had short-term borrowings of approximately RMB366 million (31 December 2020: approximately RMB323 million) and long-term borrowings of approximately RMB121 million (31 December 2020: approximately RMB245 million). The Group's major bank borrowings were denominated in RMB and bear interest at both fixed or floating rates. The fixed interest rates ranged from 3.4% to 7.99% per annum (2020: 3.4% to 7.99% per annum).

The Group's main sources of working capital are cash flows from operating activities and bank deposits. As at 31 December 2021, the Group's current ratio was approximately 5.5 (31 December 2020: approximately 5.1). As at 31 December 2021, the Group's gearing ratio was approximately 10.5% (31 December 2020: approximately 14.6%), 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 2021, the Group has not made any provision for impairment of inventories (31 December 2020: Nil). The Group estimates whether to withdraw inventory provision based on the inventory turnover days and sales performance of each product. During FY2021, the Group's inventory sales were smooth with healthy turnover days, and there were no signs which were unsalable or should be impaired.

## FINANCIAL REVIEW — CONTINUED

### Impairment of Trade and Other Receivables

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

As of 31 December 2021, trade receivables (net of impairment provision) of the Group amounted to approximately RMB1,291.17 million (31 December 2020: approximately RMB1,186.09 million). Such increase in trade receivables was mainly due to the increase in our revenue. As of 31 December 2021, impairment provision for trade receivables of approximately RMB6.88 million (31 December 2020: approximately RMB11.98 million) has been made.

### Pledge of Assets

As of 31 December 2021, the Group's certain land use right included in right-of-use assets, buildings and machineries included in property, plant and equipment with an aggregate carrying amount of approximately RMB408.82 million (31 December 2020: approximately RMB432.73 million) were pledged to secure borrowings granted to the Group.

As of 31 December 2021, 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 RMB67.49 million (31 December 2020: approximately RMB33.58 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 2021, the Group had capital commitments amounted to approximately RMB6 million for the purpose of acquisition of intangible assets (31 December 2020: no significant capital commitments).

As at 31 December 2021, the Group had no significant contingent liabilities (31 December 2020: no significant contingent liabilities).

### Foreign Exchange Exposure

During FY2021, 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 depreciation of the U.S. dollars may reduce the overseas sales income settled in U.S. dollars, which may also influence the Group's financial conditions and profitability.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW — CONTINUED

### Human Resources and Training

As of 31 December 2021, the Group had a total 3,223 employees (31 December 2020: 3,161 employees), the total staff costs were approximately RMB298.6 million (31 December 2020: approximately RMB239 million). The remuneration package of the employees is reviewed based on their work performance, experience and current market level.

We organise team-building events for our staff regularly and continue to provide training for new and existing staff to enhance technical and safety knowledge as well as knowledge of industry quality standards. We also provide fire safety training to our production staff regularly. The Board believe such initiatives have contributed to the increased employee productivity.

### Material Acquisitions and Disposals

There was no material acquisitions or disposals of subsidiaries or associated companies of the Company during FY2021.

### Significant Investment

During FY2021, there was no significant investment with a value of 5% or more of the Company's total assets held by the Company.

## FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for FY2021 (FY2020: HK7.9 cents (equivalent to approximately RMB7 cents) per Share).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 17 June 2022 to Wednesday, 22 June 2022 (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 should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Thursday, 16 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS OUTLOOK

Looking ahead to FY2022, with the gradual increase in vaccination rate against COVID-19 in various countries and the accumulation of experience in the prevention and control of the pandemic, coupled with the 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 continue to grow. Specifically, there is a stable demand for furniture from the developed countries and regions, such as Europe, the United States, Japan and South Korea, as their degree of urbanisation is high, the consumption power of their residents are strong, leading to a higher living standard from these end customers and a huge demand for renovation of obsoleted homes and furniture for rental home; for countries with an emerging market, the demand for furniture is increasing with the expansion of housing demand due to the advancing progress of urbanisation and the increase in the size of the urban population.

Although the developed economies led by the United States will tighten the monetary policy and gradually increase the interest rates, the real estate market will be full of uncertainties in FY2022. Under the uncertainties to China's furniture exporters, including the furniture manufacturing industry, China still has an irreplaceable international competitiveness as China is a country with the world's most complete supply chain. The global economic cycle model of "Made in China and consumed by the world" will continue to exist for a long time.

In FY2022, we will firmly adhere to the unchangeable factors of the Group's solid core competitive advantages, comprehensively and constantly strengthen the Group's management, push forward the fundraising and investment projects in a timely and orderly manner, and continuously expand the international large-scale retail chain customers base, so as to contribute a concrete foundation to the Group's long-term development. In mid of this business atmosphere full of the pursuit of short-term satisfactions, we always stick to our original aspirations and pursue long-term achievements, strive to achieve stable and long-term goals of the Group, and create a long-term value for the society.

# CORPORATE GOVERNANCE REPORT

The Board is pleased to report to the Shareholders on the corporate governance of the Company for FY2021.

## 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 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the basis of the Company's corporate governance practices.

In the opinion of the Directors, throughout FY2021, the Company has complied with all the code provisions as set out in the CG Code.

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

## DIRECTORS' AND EMPLOYEES' SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company's Code throughout FY2021.

No incident of non-compliance of the Company's Code by the employees of the Company was noted by the Company during FY2021.

## 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)*
Mr. Su Xinlin *(Chief Financial Officer of the Group, resigned on 27 October 2021)*

### *Independent Non-Executive Directors*

Mr. Suen To Wai
Mr. Lau Jing Yeung William
Mr. Gao Jianhua
Ms. Leong Mali *(appointed on 26 January 2022)*

The biographical information of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 35 to 38 of this report.

The relationships between the Directors are disclosed in the respective Director's biographies under the section headed "Biographies of Directors and Senior Management" on page 35 of this report. Save as disclosed therein, there is no financial, business, family or other relationships between the members of the Board.

## 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 FY2021 is set out below:

| Name of Directors | Attendance |
|---|---|
| Mr. Zeng Ming | 4/4 |
| Ms. Zeng Minglan | 4/4 |
| Mr. Wu Runlu | 4/4 |
| Mr. Su Xinlin *(resigned on 27 October 2021)* | 3/3 |
| Mr. Suen To Wai | 4/4 |
| Mr. Lau Jing Yeung William | 4/4 |
| Mr. Gao Jianhua | 4/4 |

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.

## CORPORATE GOVERNANCE REPORT

### Chairman and Chief Executives

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

The following table lists the current members of the Board 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. Su Xinlin *(resigned on 27 October 2021)* | Overall financial management of the Group |
| Mr. Suen To Wai | Overseeing the overall affairs of the Group at Board level |
| Mr. Lau Jing Yeung William | Overseeing the overall affairs of the Group at Board level |
| Mr. Gao Jianhua | Overseeing the overall affairs of the Group at Board level |
| Ms. Leong Mali *(appointed on 26 January 2022)* | Overseeing the overall affairs of the Group at Board level |

### Independent Non-Executive Directors

During FY2021, the Board had complied the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

## CORPORATE GOVERNANCE REPORT

### Appointment and Re-election of Directors

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

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

Each of the executive Directors, Mr. Zeng Ming, Ms. Zeng Minglan 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 then current term, which maybe terminated by not less than three months' notice in writing served by either party on the other.

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

The independent non-executive Director, Ms. Leong Mali, has entered into a letter of appointment with the Company for a term of three years commencing from 26 January 2022, and renewable automatically for successive terms of two years after the expiry of the then current term, which may be terminated by not less than three months' notice in writing served by either party on the other.

### Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

## 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 FY2021, 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 FY2021 have been provided to the Company and are summarised as follows:

| Directors | Reading materials regarding regulatory update and corporate governance matters | Attending seminars/ in-house workshops relevant to the Company's business, Listing Rules compliance and risk management |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Zeng Ming | ✓ | ✓ |
| Ms. Zeng Minglan | ✓ | ✓ |
| Mr. Wu Runlu | ✓ | ✓ |
| Mr. Su Xinlin *(resigned on 27 October 2021)* | ✓ | ✓ |
| ***Independent Non-Executive Directors*** | | |
| Mr. Suen To Wai | ✓ | ✓ |
| Mr. Lau Jing Yeung William | ✓ | ✓ |
| Mr. Gao Jianhua | ✓ | ✓ |

### BOARD COMMITTEES

The Board has established five committees, namely, the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**"), the corporate governance committee (the "**Corporate Governance Committee**") and the risk management committee (the "**Risk Management Committee**"), for overseeing particular aspects of the Company's affairs. The Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee are established with specific written terms of reference which deal clearly with their authority and duties, whereas the Risk Management Committee is established with clearly defined roles and responsibilities. The relevant terms of reference of the Board committees are 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 FY2021, the Audit Committee consists of three independent non-executive Directors, namely Mr. Suen To Wai, Mr. Lau Jing Yeung William and Mr. Gao Jianhua. Mr. Suen To Wai is the chairman of the Audit Committee 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 two meetings to review the interim and annual financial results and reports in respect of FY2021 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 FY2021 are as follows:

| Name of Members of the Audit Committee | Attendance |
|---|---|
| Mr. Suen To Wai | 2/2 |
| Mr. Lau Jing Yeung William | 2/2 |
| Mr. Guo Jianhua | 2/2 |

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

### Remuneration Committee

During FY2021, the Remuneration Committee consists of three members, namely Mr. Suen To Wai and Mr. Lau Jing Yeung William, 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.

## CORPORATE GOVERNANCE REPORT

The Remuneration Committee had one meeting during FY2021 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 FY2021 are as follows:

| Name of Members of the Remuneration Committee | Attendance |
|---|---|
| Ms. Zeng Minglan *(appointed as a member of the Remuneration Committee on 27 October 2021)* | – |
| Mr. Su Xinlin *(resigned on 27 October 2021)* | 1/1 |
| Mr. Suen To Wai | 1/1 |
| Mr. Lau Jing Yeung William | 1/1 |

### Nomination Committee

During FY2021, the Nomination Committee consists of three members, namely Mr. Suen To Wai and Mr. Lau Jing Yeung William, independent non-executive Directors and Mr. Zeng Ming, executive Director. Mr. Lau Jing Yeung William is the chairman of the Nomination Committee.

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

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

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

The Nomination Committee had one meeting during FY2021 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.

## CORPORATE GOVERNANCE REPORT

The attendance records of the members of the Nomination Committee during FY2021 are as follows:

| Name of Members of the Nomination Committee | Attendance |
|---|---|
| Ms. Zeng Ming | 1/1 |
| Mr. Suen To Wai | 1/1 |
| Mr. Lau Jing Yeung William | 1/1 |

### Corporate Governance Committee

During FY2021, the Corporate Governance Committee consists of three members, namely, Mr. Suen To Wai and Mr. Lau Jing Yeung William, 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 one meeting during FY2021 to review and approve the corporate governance report in respect of FY2020 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 FY2021 are as follows:

| Name of Members of the Corporate Governance Committee | Attendance |
|---|---|
| Ms. Zeng Minglan *(appointed as a member of the Corporate Governance Committee on 27 October 2021)* | — |
| Mr. Su Xinlin *(resigned on 27 October 2021)* | 1/1 |
| Mr. Suen To Wai | 1/1 |
| Mr. Lau Jing Yeung William | 1/1 |

### Risk Management Committee

During FY2021, the Risk Management Committee consists of three members, namely Mr. Zeng Ming and Ms. Zeng Minglan, executive Directors and Mr. Gao Jianhua, independent non-executive Director. Mr. Zeng Ming is the chairman of the Risk Management Committee.

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

The Risk Management Committee had two meetings during FY2021 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 FY2021 are as follows:

| Name of Members of the Risk Management Committee | Attendance |
|---|---|
| Mr. Zeng Ming | 2/2 |
| Ms. Zeng Minglan | 2/2 |
| Mr. Guo Jianhua | 2/2 |

## 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.

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

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 | 5 |
| **Nationality** | |
| Australian | 1 |
| Chinese | 4 |
| Singaporean | 1 |
| St. Kitts and Nevis | 1 |
| **Age** | |
| 31–40 | 1 |
| 41–50 | 2 |
| 51–60 | 4 |
| **Length of Service** | |
| Less than 1 year | 1 |
| 1–3 years | 6 |

### Director Nomination Policy

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

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

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

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

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During FY2021 and up to the date of this report, the Board approved the resignation of Mr. Su Xinlin as an executive Director with effect from 27 October 2021 and the appointment of Ms. Leong Mali as an independent non-executive Director with effect from 26 January 2022 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.

## CORPORATE GOVERNANCE REPORT

### RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

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

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

The management has confirmed to the Board and the Audit Committee and the Risk Management Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2021.

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 FY2021, and considered that such systems are effective and adequate.

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

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

## NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

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

The Company has received written declarations from each controlling Shareholder in respect of his/its and/or his/its close associates' compliance with the terms of the Deed 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 FY2021.

## 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 FY2021.

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.

## CORPORATE GOVERNANCE REPORT

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 51 to 55.

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

### AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditor in respect of audit services and non-audit services for FY2021 is set out below:

| **Service Category** | **Fees Paid/ Payable** (RMB'000) |
|---|---|
| Audit services | 1,980 |
| Non-audit services | |
| — Interim review | 320 |
| | 2,300 |

### COMPANY SECRETARY

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

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. 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. Chan on the Company's corporate governance and secretarial and administrative matters.

For FY2021, Ms. Chan 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.

## CORPORATE GOVERNANCE REPORT

### Convening an Extraordinary General Meeting

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

### Putting Forward Proposals at General Meetings

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

### Putting Forward Enquiries to the Board

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

**Tricor Investor Services Limited**

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

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

## CORPORATE GOVERNANCE REPORT

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

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

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

The Company has adopted an amended and restated Memorandum and Articles of Association by a special resolution passed on 2 December 2020 and with effect from the Listing Date and 2 December 2020 respectively. An up to date version of the Company's Memorandum and Articles of Association is also available on the Company's website and the Stock Exchange's website. There was no change in the constitutional documents of the Company during FY2021.

#### Policies relating to Shareholders

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

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

# 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 51, 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 19 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 2021 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 47, 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 22 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 55, 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 19 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 48, is an independent non-executive Director. He was appointed as an independent non-executive Director on 2 December 2020.

Mr. Suen has over 14 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, and Ping An Securities Group (Holdings) Limited, a company listed on the Stock Exchange (stock code: 231), since April 2018 and February 2020, respectively. He is currently an independent non-executive director of MingZhu Logistics Holdings Limited, a company listed on NASDAQ (stock code: YGMZ). 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

**Mr. LAU Jing Yeung William (劉正揚)**, aged 40, is an independent non-executive Director. He was appointed as an independent non-executive Director on 2 December 2020.

Mr. Lau has over 13 years of experience in accounting, finance and consulting. Mr. Lau has been the director of Winning Brothers Capital Group Limited since 30 June 2015, mainly responsible for strategic business development. He has been an independent non-executive director of Flying Financial Service Holdings Limited (Stock Code: 8030), a company listed on the GEM board of the Stock Exchange since 11 March 2022. He worked in the China Yinsheng International Securities Limited, which provides asset management services, broker services and advisory services, from September 2017 to January 2018 and his last position was Associate Director. He was a manager of the direct investment department of Yuanta Securities (Hong Kong) Company Limited, a licenced corporation registered with the SFC to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, from August 2014 to June 2015. He was also a manager in the corporate finance department of Mazars CPA Limited from March 2012 to March 2014, and a senior associate of the corporate finance department in the Hong Kong branch of KBC Bank N.V, from April 2010 to November 2011. Mr. Lau was a senior accountant in Ferrier Hodgson Limited from May 2008 to February 2010, an associate in Asian Capital (Corporate Finance) Limited from November 2006 to January 2008, and a staff accountant in Deloitte Touche Tohmatsu from January 2005 to June 2006.

Mr. Lau became a member of the CPA Australia in December 2010, a member of the Institute of Certified Management Accountants in July 2012 and an associate of the Chartered Institute of Management Accountants in June 2011. He obtained a degree of Bachelor of Business (Accountancy) and a degree of Master of Business (Marketing) from the Queensland University of Technology in October 2002 and October 2003 respectively.

**Mr. GAO Jianhua (高建華)**, aged 60, is an independent non-executive Director. He was appointed as an independent non-executive Director on 2 December 2020.

Mr. Gao has over 28 years of experience in consulting, marketing and management. Mr. Gao was the strategic planning senior manager of Walvax Biotechnology Co., Limited* (雲南沃森生物技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300142), from March 2014 to April 2017, the vice president of Dooshion Garment Co., Limited* (東尚服裝股份有限公司), which principally engages in the export of garment, from March 2009 to March 2014. Mr. Gao is a supervisor of Beijing Huizhi Brilliant Business Management Consulting Company Limited* (北京匯智卓越企業管理諮詢有限公司) and was the chief consultant such company from May 2003 to March 2009. Mr. Gao had held various positions in China Hewlett-Packard Co., Limited (中國惠普有限公司) (currently known as Hewlett Packard Enterprise (China) Co., Limited (慧與 (中國) 有限公司)) ("**HP China**"), including assistant president, director of strategic planning, general manager of North China region and chief knowledge officer from January 2001 to May 2003. Mr. Gao had also worked as a marketing director of Agilent Technology Company Limited (安捷倫科技有限公司) from November 1999 to January 2001, a marketing director and a marketing engineer and manager of HP China from September 1996 to October 1999 and from March 1986 to October 1994, respectively.

* *For identification purpose only*

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Gao obtained a bachelor's degree in television broadcasting engineering from Beijing Broadcasting Institute (北京廣播學院) (now known as Communication University of China (中國傳媒大學)) in July 1982. He also obtained a master of business administration from China Europe International Business School (中歐國際工商學院) in April 2000.

**Ms. LEONG Mali (梁馬利)**, aged 54, is an independent non-executive Director. She was appointed as an independent non-executive Director on 26 January 2022.

Ms. Leong has over 20 years of experience in the financial investment industry of the Asia-Pacific region. She is currently the chairlady of the board of director of Transpac Capital Limited ("**Transpac Capital**"), a company principally engaged in investment in different portfolio companies located in Asia and she is mainly responsible for the strategic development and business management of Transpac Capital. In 2009, she was selected as one of the ten most intelligent person in China (中華十大才智人物).

### SENIOR MANAGEMENT

**Mr. Wong Chun Kwok (黃振國)**, aged 39, was appointed as the chief financial officer of the Company on 27 October 2021. Mr. Wong has over 16 years of experience in accounting and financing. Mr. Wong currently serves as a director of DW Consulting Corporation Limited 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 FY2021.

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

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

| Use of net proceeds as detailed and defined in the Prospectus | Net proceeds | Percentage of net proceeds | Actual amount utilised as of 31 December 2021 | Actual amount of unutilised net proceeds as of 31 December 2021 | Expected date for fully utilisation of unutilised net proceeds |
|---|---|---|---|---|---|
| | (HK$ million) (approximately) | (%) (approximately) | (HK$ million) (approximately) | (HK$ million) (approximately) | |
| Establishment of a new manufacturing compartment to manufacture panel-type furniture and upholstered furniture | 636 | 45.4% | 28 | 608 | On or before 30 June 2023 |
| Construction of the second phase of the factory of the Group in Nankang, Ganzhou, Jiangxi Province, China | 463 | 33.0% | 1 | 462 | On or before 30 June 2023 (Note) |
| Upgrading the production line in the existing production facilities by acquiring more advanced and automated machineries and equipment for the factory of Huisen Furniture Factory | 70 | 5.0% | 70 | – | N/A |
| Enhancing the product design, research and development capabilities | 93 | 6.6% | 7 | 86 | On or before 31 December 2022 |
| General replenishment of working capital and other general corporate purpose | 140 | 10.0% | 140 | – | N/A |
| Total | 1,402 | 100.0% | 246 | 1,156 | |

*Note:* As of the date of this report, the Board is aware that there has been a delay in the expected timeline for the use of proceeds when compared to the implementation plan as disclosed in the Prospectus. The delay in use of proceeds is mainly due to the land for the second phase of the factory in Nankang is still pending for the PRC government's approval, therefore the construction of the second phase of the new factory has been delayed.

## REPORT OF THE DIRECTORS

During FY2021, the unutilised net proceeds of the Group were being kept in banks and authorised financial institutions in Hong Kong and the PRC.

### 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 32 to the consolidated financial statements.

### RESULTS AND FINAL DIVIDEND

The results of the Group for FY2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 56 of this report.

The Board did not recommend the payment of a final dividend for FY2021 (FY2020: HK7.9 cents (equivalent to approximately RMB7 cents) per Share).

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 17 June 2022 to Wednesday, 22 June 2022 (both days inclusive) for the purpose of determining the right to attend and vote at the forthcoming AGM. In order to be qualified for attending and voting at the forthcoming AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Thursday, 16 June 2022.

### 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 FY2021; and (iv) a discussion on the Group's future business development as well as an analysis of the Group's performance during FY2021 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.

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

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group is principally engaged in the manufacturing of furniture products through its factories in mainland China. The products are mainly exported to the United States. The 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 29 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2021 and 2020, the Company's reserves available for distribution to Shareholders are as follows:

| | **2021 (RMB'000)** | 2020 (RMB'000) |
|---|---|---|
| Share premium | **656,736** | 777,539 |
| Statutory reserves | **381,574** | 296,106 |
| Retained earnings | **3,296,045** | 2,493,446 |
| | **4,334,355** | 3,567,091 |

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 FY2021 are set out in Note 30 to the consolidated financial statements.

## BORROWINGS

Details of the Group's borrowings from financial institutions as at 31 December 2021 are set out in Note 27 to the consolidated financial statements.

# REPORT OF THE DIRECTORS

## DIRECTORS

The Directors during FY2021 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)*
Mr. Su Xinlin *(Chief Financial Officer of the Group, resigned on 27 October 2021)*

***Independent Non-Executive Directors***

Mr. Suen To Wai
Mr. Lau Jing Yeung William
Mr. Gao Jianhua
Ms. Leong Mali *(appointed on 26 January 2022)*

## DIRECTORS' SERVICE CONTRACT AND APPOINTMENT LETTER

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

Each of the independent non-executive Directors, Mr. Suen To Wai, Mr. Lau Jing Yeung William and Mr. Gao Jianhua, has signed a letter of appointment with the Company for a term of three years commencing from 2 December 2020 (subject to termination in certain circumstances as stipulated in the relevant letter of appointment).

The independent non-executive Director, Ms. Leong Mali, has entered into a letter of appointment with the Company for a term of three years commencing from 26 January 2022 (subject to termination in certain circumstances as stipulated in the relevant letter of appointment).

In accordance with Article 105 of the Articles of Association, Ms. Zeng Minglan and Mr. Suen To Wai shall retire from office by rotation at the AGM. In accordance with Article 109 of the Articles of Association, Ms. Leong Mali who has been appointed by the Board on 26 January 2022, shall hold office until the AGM. Ms. Zeng, Mr. Suen and Ms. Leong, 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 FY2021 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 FY2021.

### 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 FY2021 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 2021, 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 | 2,193,750,000 (L) *(Note 2)* | 71.479% |

*Notes:*

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

2. These 2,193,750,000 Shares are held by Pure Cypress Limited, the issued shares of which are wholly owned by Mr. Zeng. Under the SFO, Mr. Zeng will be taken to be interested in the Shares held by Pure Cypress Limited.

Save as disclosed above, as at 31 December 2021, 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 2021, the interests of substantial Shareholders and other persons (other than the Directors or chief executives of the Company) in the Shares and underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO were as follows:

| Name of substantial shareholder | Capacity | Number and class of securities *(Note 1)* | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Pure Cypress Limited | Beneficial owner | 2,193,750,000 (L) *(Note 2)* | 71.479% |
| Mr. Zeng | Interest of controlled corporation | 2,193,750,000 (L) *(Note 2)* | 71.479% |
| Ms. Zeng Ronghua ("**Ms. Zeng RH**") | Interest of spouse | 2,193,750,000 (L) *(Note 3)* | 71.479% |

*Notes:*

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

2. These 2,193,750,000 Shares are held by Pure Cypress Limited, which is wholly owned by Mr. Zeng. Under the SFO, Mr. Zeng will be taken to be interested in the Shares held by Pure Cypress Limited.

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

Save as disclosed above, as at 31 December 2021, 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 FY2021, the Group's sales to the five largest customers and the largest customer accounted for approximately 86.8% and 25.2% 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 17.9% and 4.4% respectively, of the Group's total annual purchases.

## REPORT OF THE DIRECTORS

During FY2021, 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 FY2021.

### 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 9 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 2.77% of the issued share capital of the Company.

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

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option, subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

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

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. Please refer to the announcement of the Company dated 14 January 2022 for details of the grant of share option.

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

## 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 FY2021.

## EQUITY-LINKED AGREEMENTS

During FY2021 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 FY2021, 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 33 to the consolidated financial statements. None of the related party transactions disclosed in Note 33 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 FY2021. 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 14 of the Listing Rules. The Board has reviewed the corporate governance practices of the Company and is satisfied that the Company has complied with the code provisions set out in the CG Code for FY2021.

# REPORT OF THE DIRECTORS

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its Code of Conduct regarding securities transactions by directors, the terms of which are no less than the required standard set out in the Model Code as set out in Appendix 10 of the Listing Rules. After the specific enquiry made by the Company, all Directors of the Company have confirmed that they have complied with the required standard set out in the Model Code regarding the code of conduct for securities transactions by directors for FY2021 and up to the date of this report.

## 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 FY2021 (FY2020: HK7.9 cents (equivalent to approximately RMB7 cents) per Share).

## EMOLUMENT POLICY

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

## RETIREMENT BENEFIT SCHEME

The Group participates in a state-managed retirement benefit plan operated by the PRC government 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 FY2021 which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

## CHARITABLE DONATIONS

During FY2021, the Group made a total of RMB300,000 for charitable and other donations (FY2020: RMB50,000).

## SUFFICIENCY OF PUBLIC FLOAT

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

## REPORT OF THE DIRECTORS

### REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established the Audit Committee comprising four independent non-executive Directors of the Company, namely Mr. Suen To Wai, Mr. Lau Jing Yeung William, Mr. Gao Jianhua and Ms. Leong Mali. 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 FY2021, including the accounting standards and practices adopted by the Group, and has also discussed the financial report of the Company and the risk management and internal control mechanism.

### AUDITOR

The consolidated financial statements for FY2021 have been audited by BDO Limited whose term of office will expire upon the conclusion of the AGM. BDO Limited will retire, and being eligible, offer themselves for re-appointment. A resolution for their reappointment as the auditor of the Company will be proposed at the forthcoming AGM.

### EVENTS AFTER THE REPORTING PERIOD

On 6 January 2022, a subsidiary of the Group, namely Huisen Environmental Protection Material Technology (Ganzhou) Co., Limited ("**Huisen Environmental**") entered into agreements with the Ganzhou Local Government, that Huisen Environmental has acquired the land use right of two parcels of land from the Ganzhou local government at RMB2,580,000 and RMB1,450,000 respectively. The final payment was made on 20 January 2022 and the Group is in the process of obtaining the land certificates.

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 in accordance with its Share Option Scheme. Please refer to the announcement of the Company dated 14 January 2022 for details of the grant of share option.

On 24 January 2022, the Group has executed a strategic cooperation agreement with Netjoy Holdings Limited (stock code: 2131) ("**Netjoy**"), a company listed on the Main Board of the Stock Exchange. The Group shall engage Netjoy for the provision of short video online marketing solutions for the promotion of the Group's smart home products and the provision of big data management and analysis for improving and optimizing the efficiency of marketing and advertising campaign of the Group. In addition, the Group and Netjoy shall jointly cooperate for the development of a cloud-based virtual reality smart home project based on Metaverse, including but not limited to developing virtual reality exhibition hall for consumers' interactive experience, live broadcast sales by artificial intelligence ("**AI**") sales anchor and promotion and sales of the smart home products of the Group through the application of AI technologies. Please refer to the voluntary announcement of the Company dated 24 January 2022 for details of the cooperation with Netjoy.

## REPORT OF THE DIRECTORS

Save as those disclosed above, the Group did not have any other significant events after FY2021 and up to the date of this report.

### 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 124 of this report.

On behalf of the Board

**Zeng Ming**
*Chairman*

PRC, 25 March 2022

# INDEPENDENT AUDITOR'S REPORT

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

## OPINION

We have audited the consolidated financial statements of Huisen Household International Group Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 56 to 123, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

# 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.

### Impairment of trade receivables

***Refer to note 21 to the consolidated financial statements***

As at 31 December 2021, the Group's trade receivables amounted to approximately RMB1,298,047,000, which in aggregate represented about 22.8% of the total assets of the Group.

Significant management judgement is required to assess the recoverability of trade receivables. Management performed a detailed analysis taking into account customer's ageing profile, credit history and historical payment pattern and the forward-looking information for the estimation of expected credit losses ("**ECLs**") on its trade receivables. Based on management assessment, the Group proposed an accumulated provision of RMB6,880,000 as at year end.

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

***Our response:***

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

- understanding and evaluating the design, implementation and operating effectiveness of management's key internal controls in respect of the valuation of trade receivables, which included credit control procedures and estimate of expected credit losses under the Group's policy;

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

## DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

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

Hong Kong, 25 March 2022

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2021*

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| Revenue | 7 | 5,139,157 | 3,895,548 |
| Cost of sales | | (3,839,952) | (2,951,403) |
| Gross profit | | 1,299,205 | 944,145 |
| Other revenue | 8 | 29,663 | 6,469 |
| Other gains and losses | 9 | (54,146) | (89,335) |
| Distribution and selling expenses | | (95,239) | (68,131) |
| Administrative expenses | | (108,798) | (76,350) |
| Reversal of/(provision for) impairment loss recognised on trade receivables, net | | 5,101 | (6,705) |
| Finance costs | 10 | (36,766) | (42,720) |
| Listing expenses | | — | (29,514) |
| Profit before income tax expense | 11 | 1,039,020 | 637,859 |
| Income tax expense | 15 | (150,953) | (97,176) |
| Profit and total comprehensive income for the year | | 888,067 | 540,683 |
| Total comprehensive income for the year attributable to: | | | |
| Owner of the Company | | 888,067 | 540,683 |
| Earnings per share — Basic and diluted (RMB) | 17 | 0.29 | 0.24 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2021*

| | *Notes* | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *18* | **933,949** | 916,049 |
| Right-of-use assets | *19* | **46,480** | 30,044 |
| Prepayments for acquisition of property, plant and equipment and intangible assets | *22* | **6,946** | 50 |
| Other receivables | *22* | **940** | 855 |
| Deferred tax assets | *24* | **1,029** | 1,795 |
| Total non-current assets | | **989,344** | 948,793 |
| **Current assets** | | | |
| Inventories | *20* | **215,455** | 150,361 |
| Trade receivables | *21* | **1,291,167** | 1,186,087 |
| Prepayments, deposits and other receivables | *22* | **53,206** | 50,570 |
| Cash and cash equivalents | *23* | **3,137,071** | 2,647,848 |
| Total current assets | | **4,696,899** | 4,034,866 |
| **Total assets** | | **5,686,243** | 4,983,659 |
| **Current liabilities** | | | |
| Trade payables | *25* | **358,167** | 338,531 |
| Other payables and accruals | *26* | **86,734** | 93,953 |
| Borrowings | *27* | **365,513** | 323,145 |
| Lease liabilities | *28* | **8,035** | 3,750 |
| Income tax payable | | **32,639** | 34,847 |
| Total current liabilities | | **851,088** | 794,226 |
| **Net current assets** | | **3,845,811** | 3,240,640 |
| **Total assets less current liabilities** | | **4,835,155** | 4,189,433 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2021*

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | *27* | **120,519** | 245,032 |
| Lease liabilities | *28* | **1,244** | 4,052 |
| **Total non-current liabilities** | | **121,763** | 249,084 |
| **NET ASSETS** | | **4,713,392** | 3,940,349 |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | *29* | **259,018** | 253,239 |
| Reserves | | **4,454,374** | 3,687,110 |
| **TOTAL EQUITY** | | **4,713,392** | 3,940,349 |

The consolidated financial statements on pages 56 to 123 were approved and authorised for issue by the Board of Directors on 25 March 2022 and are signed on its behalf by:

**Zeng Ming**
*Director*

**Zeng Minglan**
*Director*

# CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

*As at 31 December 2021*

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share Capital RMB'000 *(Note 29)* | Capital reserve RMB'000 *(Note 30)* | Share premium RMB'000 *(Note 30)* | Statutory reserve RMB'000 *(Note 30)* | Merger reserve RMB'000 *(Note 30)* | Retained earnings RMB'000 *(Note 30)* | Total RMB'000 | Total equity RMB'000 |
| **As at 1 January 2020** | 9 | 92,425 | – | 241,189 | 27,594 | 2,007,680 | 2,368,897 | 2,368,897 |
| Profit for the year | – | – | – | – | – | 540,683 | 540,683 | 540,683 |
| Transfer from retained earnings to statutory reserve | – | – | – | 54,917 | – | (54,917) | – | – |
| Total comprehensive income | 9 | 92,425 | – | 296,106 | 27,594 | 2,493,446 | 2,909,580 | 2,909,580 |
| Issuance of new shares upon listing *(Note 29(ii))* | 63,309 | – | 1,061,801 | – | – | – | 1,125,110 | 1,125,110 |
| Capitalisation issue *(Note 29(ii))* | 189,921 | – | (189,921) | – | – | – | – | – |
| Expenses attributed to issuance of new shares upon listing | – | – | (94,341) | – | – | – | (94,341) | (94,341) |
| **As at 31 December 2020** | 253,239 | 92,425 | 777,539 | 296,106 | 27,594 | 2,493,446 | 3,940,349 | 3,940,349 |
| **As at 1 January 2021** | **253,239** | **92,425** | **777,539** | **296,106** | **27,594** | **2,493,446** | **3,940,349** | **3,940,349** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **888,067** | **888,067** | **888,067** |
| Transfer from retained earnings to statutory reserve | **–** | **–** | **–** | **85,468** | **–** | **(85,468)** | **–** | **–** |
| Total comprehensive income | **253,239** | **92,425** | **777,539** | **381,574** | **27,594** | **3,296,045** | **4,828,416** | **4,828,416** |
| Dividend recognised as distribution *(Note 16)* | **–** | **–** | **(216,273)** | **–** | **–** | **–** | **(216,273)** | **(216,273)** |
| Exercise of the over-allotment option in relation to initial public offer *(Note 29(iii))* | **5,779** | **–** | **95,470** | **–** | **–** | **–** | **101,249** | **101,249** |
| **As at 31 December 2021** | **259,018** | **92,425** | **656,736** | **381,574** | **27,594** | **3,296,045** | **4,713,392** | **4,713,392** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2021*

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax expense | **1,039,020** | 637,859 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **103,665** | 101,864 |
| Depreciation of right-of-use assets | **4,510** | 4,116 |
| Finance costs | **36,766** | 42,720 |
| Interest income | **(8,849)** | (4,470) |
| (Reversal of)/provision for impairment loss recognised on trade receivables, net | **(5,101)** | 6,705 |
| Loss on disposal of property, plant and equipment | **15,529** | 4,027 |
| **Operating profits before working capital changes** | **1,185,540** | 792,821 |
| (Increase)/decrease in inventories | **(65,094)** | 21,069 |
| Increase in trade receivables | **(99,979)** | (142,834) |
| (Increase)/decrease in prepayments, deposits and other receivables | **(4,876)** | 5,916 |
| Increase in trade payables | **19,636** | 67,550 |
| Decrease in other payables and accruals | **(7,219)** | (6,187) |
| **Cash generated from operations** | **1,028,008** | 738,335 |
| Income tax paid | **(152,395)** | (87,445) |
| **Net cash generated from operating activities** | **875,613** | 650,890 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2021*

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | **(138,189)** | (31,849) |
| Purchase of prepaid land lease | | **(11,098)** | — |
| Prepayments paid for acquisition of property, plant and equipment | | **(6,896)** | — |
| Proceeds from disposal of property, plant and equipment | | **1,095** | 168 |
| Decrease in restricted bank deposits | | **—** | 1,240 |
| Interest received | | **8,849** | 4,470 |
| **Net cash used in investing activities** | | **(146,239)** | (25,971) |
| **Cash flows from financing activities** | *36* | | |
| Repayment of principal portion of the lease liabilities | | **(8,371)** | (3,594) |
| Proceeds from borrowings | | **202,000** | 192,199 |
| Repayment of borrowings | | **(284,145)** | (280,038) |
| Decrease in security deposits paid for borrowings | | **2,155** | 383 |
| Interest paid | | **(36,766)** | (42,720) |
| Repayment to an ultimate holding company | | **—** | (13) |
| Advance from a shareholder | | **—** | 356 |
| Repayment to a shareholder | | **—** | (356) |
| Dividends paid | | **(216,273)** | — |
| Expenses attributed to issuance of new shares upon listing | | **—** | (53,034) |
| Proceeds from issue of new ordinary shares upon listing | | **—** | 1,125,110 |
| Proceeds from exercising of the over-allotment option in relation to initial public offer | | **101,249** | — |
| **Net cash (used in)/generated from financing activities** | | **(240,151)** | 938,293 |
| **Net increase in cash and cash equivalents** | | **489,223** | 1,563,212 |
| **Cash and cash equivalents at the beginning of year** | | **2,647,848** | 1,084,636 |
| **Cash and cash equivalents at the end of year** | | **3,137,071** | 2,647,848 |
| **Analysis of the balances of cash and cash equivalents:** | | | |
| Cash and bank balances | | **3,137,071** | 2,647,848 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

## 1. GENERAL INFORMATION

### (a) General information

Huisen Household International Group Limited (the "**Company**") was incorporated in the Cayman Islands on 16 March 2018, as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**HKEx**" or the "**Stock Exchange**").

The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is Huisen Road, Daluo Industrial Park, Longnan Economic Technology Development Zone, Longnan County, Jiangxi Province, the People's Republic of China (the "**PRC**"). The Company's ultimate holding company is Pure Cypress Limited (incorporated in the British Virgin Islands (the "**BVI**") and the ultimate controlling party is Mr. Zeng Ming ("**Mr. Zeng**").

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

### (b) Reorganisation

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

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

### (a) Adoption of new or amended HKFRSs

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

| | |
|---|---|
| Amendments to HKAS 39, HKFRS 7 and HKFRS 9 | Interest Rate Benchmark Reform — Phase 2[1] |
| Amendments to HKFRS 16 | COVID-19-Related Rent Concessions[1] |
| 2021 Amendments to HKFRS 16 | COVID-19-Related Rent Concessions beyond 30 June 2021[2] |

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for annual periods beginning on or after 1 April 2021.

None of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period except for the 2021 amendments to HKFRS 16. Impact on the application of this amended HKFRS is summarised below.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

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

#### (a) Adoption of new or amended HKFRSs (Continued)

***Amendment to HKFRS 16, COVID-19-Related Rent Concessions***

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

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

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

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

***2021 Amendments to HKFRS 16, COVID-19-Related Rent Concessions beyond 30 June 2021***

The amendment extends the practical expedient available to lessees in accounting for COVID-19-Related rent concessions by one year. The reduction in lease payments could only affect payments originally due on or before 30 June 2021 is extended to 30 June 2022. The amendment is effective for annual reporting periods beginning on or after 1 April 2021, with earlier application permitted.

The Group has elected to early adopt the above amendments and apply the practical expedient for all rent concessions that meet the criteria. In accordance with the transitional provisions, the Group has applied the amendment retrospectively, and has not restated prior period figure. As the rent concessions arose during the year ended 31 December 2020, there is no retrospective adjustment to opening balance of retained earnings at 1 January 2021 on initial application of the amendment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

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

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

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

| | |
|---|---|
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[3] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosures of Accounting Policies[3] |
| Amendments to HKAS 8 | Disclosures of Accounting Estimates[3] |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3] |
| Amendments to HKAS 16 | Proceeds before Intended Use[1] |
| Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract[1] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[2] |
| HKFRS 17 | Insurance Contracts[3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Annual Improvements to HKFRSs 2018–2020 Cycle | Amendment to HKFRS 1[1] |
| Annual Improvements to HKFRSs 2018–2020 Cycle | Amendment to HKFRS 9, Financial Instruments[1] |
| Annual Improvements to HKFRSs 2018–2020 Cycle | Amendment to illustrative examples, HKFRS 16, Leases[1] |

1 Effective for annual periods beginning on or after 1 January 2022.

2 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

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

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

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

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

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

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

***Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosures of Accounting Policies***

The amendments to HKAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to HKFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

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

***Amendments to HKAS 8, Disclosures of Accounting Estimates***

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

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

***Amendments to HKAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

The amendments clarify whether the initial recognition exemption applies to certain transactions that often result in both an asset and a liability being recognised simultaneously. Such instances might include the initial recognition of leases from the perspective of a lessee or asset retirement obligations (AROs)/ decommissioning liabilities.

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

***Amendments to HKAS 16, Proceeds before Intended Use***

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

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

***Amendments to HKFRS 3, Reference to the Conceptual Framework***

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

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

***HKFRS 17 — Insurance Contracts***

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

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

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

***Annual Improvements to HKFRSs 2018–2020 Cycle, Amendment to HKFRS 1***

The annual improvements permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

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

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

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

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

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

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

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

### 3. BASIS OF PREPARATION

#### (a) Statement of compliance

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 3. BASIS OF PREPARATION (CONTINUED)

#### (b) Basis of measurement

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

#### (c) Functional and presentation currency

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

### 4. SIGNIFICANT ACCOUNTING POLICIES

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

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

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

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

When the Group loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for on the same basis as would be required if the relevant assets or liabilities were disposed of.

#### (b) Subsidiaries

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Property, plant and equipment

Property, plant and equipment 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 |

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Government grants

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

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

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

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

#### (e) Leases

***The Group as a lessee***

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (e) Leases (Continued)

***The Group as a lessee (Continued)***

*Right-of-use asset*

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

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

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

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

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

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

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

*Lease liability*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (e) Leases (Continued)

***The Group as a lessee (Continued)***

*Lease liability (Continued)*

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

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

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

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

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

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

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

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Leases (Continued)

***The Group as a lessee (Continued)***

*Lease liability (Continued)*

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

***The Group as a lessor***

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

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

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

### (f) Financial Instruments

***(i) Financial asset***

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Financial Instruments (Continued)

##### *(i) Financial asset (Continued)*

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

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

##### *(ii) Impairment loss on financial assets*

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

- 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Financial Instruments (Continued)

#### *(ii) Impairment loss on financial assets (Continued)*

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-loo king 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, bills and other payables, borrowings, leases liabilities and amount due to an ultimate holding company, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

#### *(iv) Effective interest method*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Financial Instruments (Continued)

##### *(v) Equity instrument*

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

##### *(vi) Derecognition*

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

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

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

#### (g) Inventories

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

#### (h) Revenue recognition

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Revenue recognition (Continued)

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

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

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

#### *(i) Furniture production*

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (h) Revenue recognition (Continued)

##### *(ii) Other revenue*

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

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

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

#### (i) Income taxes

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Income taxes (Continued)

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

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

### (j) Foreign currencies

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Employee benefits

##### *(i) Short-term employee benefits*

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

##### *(ii) Defined contribution retirement plan*

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

##### *(iii) Termination benefits*

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

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

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

- property, plant and equipment; and
- right-of-use assets

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

#### (m) Provisions and contingent liabilities

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

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

#### (n) Cash and cash equivalents

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

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

#### (o) Research and development costs

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (p) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Given Covid-19 pandemic has created and may continue to create significant uncertainty in macroeconomic conditions, actual results may differ from these estimates.

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

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

#### *(i) Determination of functional currency*

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

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

#### (b) Key sources of estimation uncertainty

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

##### *(i) Estimated useful lives and residual value of property, plant and equipment*

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

##### *(ii) Net realisable value of inventories*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

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

### (b) Key sources of estimation uncertainty (Continued)

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

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.

The economic downturn and uncertainties that have arisen as a result of Covid-19 pandemic have made these estimates more judgemental, which the Group has taken into account in its determination of applicable ECLs attributable to trade receivable arising from sales to customers on credit term, including the incorporation of forward-looking information to supplement historical credit loss rate. Further information on the impairment assessment on trade receivables is provided in Note 34(a).

#### *(iv) Income tax and deferred tax*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 6. SEGMENT INFORMATION

**Operating segments**

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

**Geographical information**

The management determines the Group is domiciled in the PRC, which is the location of the Group's principal office. The Group's revenues from external customers are divided into the following geographical areas:

| | Revenue from external customers | |
|---|---|---|
| | **2021** | 2020 |
| | **RMB'000** | RMB'000 |
| The United States of America (the "**United States**" or "**U.S.**") | **3,457,208** | 2,613,090 |
| The PRC | **247,608** | 217,494 |
| Singapore | **221,285** | 164,096 |
| Malaysia | **146,093** | 109,511 |
| Vietnam | **119,188** | 82,369 |
| Canada | **128,272** | 73,640 |
| Other locations | **819,503** | 635,348 |
| | **5,139,157** | 3,895,548 |

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 2021 and 2020, 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

*31 December 2021*

### 6. SEGMENT INFORMATION (CONTINUED)

**Information about major customers**

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Customer A | **1,294,106** | 957,298 |
| Customer B | **639,573** | 480,325 |
| Customer C | **1,021,921** | 778,799 |
| Customer D | **705,858** | 524,618 |
| Customer E | **799,672** | 602,234 |
| | **4,461,130** | 3,343,274 |

### 7. REVENUE

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Panel-type furniture | **4,829,553** | 3,606,286 |
| Upholstered furniture | **155,134** | 129,879 |
| Outdoor/sport-type furniture | **154,470** | 159,383 |
| | **5,139,157** | 3,895,548 |
| **Timing of revenue recognition** | | |
| At a point in time | **5,139,157** | 3,895,548 |
| Transferred over time | **—** | — |
| | **5,139,157** | 3,895,548 |

As at 31 December 2021, no transaction price was allocated to the remaining performance obligations under the Group's existing contracts (2020: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 8. OTHER REVENUE

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Interest income from bank deposits | **8,849** | 4,470 |
| Government grants *(Note)* | **17,531** | 337 |
| Rental income | **2,746** | 159 |
| Sales of trimmed materials | **537** | 1,503 |
| | **29,663** | 6,469 |

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

### 9. OTHER GAINS AND LOSSES

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Exchange losses, net | **38,617** | 85,308 |
| Losses on disposal of property, plant and equipment | **15,529** | 4,027 |
| | **54,146** | 89,335 |

### 10. FINANCE COSTS

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Interest expenses on bank and other borrowings | **35,980** | 42,443 |
| Interest expenses on lease liabilities | **786** | 277 |
| | **36,766** | 42,720 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 11. PROFIT BEFORE INCOME TAX EXPENSE

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Auditors' remuneration | 1,980 | 1,344 |
| Cost of inventories recognised as expenses *(Note)* | 3,839,952 | 2,951,403 |
| Depreciation charge: | | |
| — Owned property, plant and equipment *(Note 18)* | 103,665 | 101,864 |
| — Right-of-use-assets *(Note 19)* | 4,510 | 4,116 |
| | 108,175 | 105,980 |
| Listing expenses — Hong Kong Exchanges and Clearing Limited ("**HKEX**") | – | 29,514 |
| Research and development costs | 9,474 | 15,016 |
| (Reversal of)/provision for impairment loss recognised on trade receivables, net *(Note 21)* | (5,101) | 6,705 |
| Employee costs *(Note 12)* | 298,602 | 239,163 |

*Note:* Cost of inventories recognised as expenses includes RMB626,595,000 (2020: RMB506,733,000) 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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Employee costs (including directors' emoluments *(Note 14)*) comprise: | | |
| Wages and salaries | 254,694 | 210,480 |
| Contributions to retirement benefits scheme | 32,803 | 19,587 |
| Other employee benefits | 11,105 | 9,096 |
| | 298,602 | 239,163 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 13. RETIREMENT BENEFITS SCHEMES

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

### 14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (i) Directors' remuneration

Directors' emoluments is disclosed as follows:

| | | Year ended 31 December 2021 | | | | |
|---|---|---|---|---|---|---|
| | *Note* | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Contributions to retirement benefits scheme RMB'000 | Equity-settled share-based payment RMB'000 | Total emoluments RMB'000 |
| **Executive directors** | | | | | | |
| Mr. Zeng | | – | 456 | 10 | – | 466 |
| Ms. Zeng Minglan | | – | 360 | 10 | – | 370 |
| Mr. Wu Runlu | | – | 420 | 10 | – | 430 |
| Mr. Su Xinlin | *(iii)* | – | 380 | – | – | 380 |
| | | – | 1,616 | 30 | – | 1,646 |
| **Independent non-executive directors** | | | | | | |
| Mr. Suen To Wai | *(ii)* | 149 | – | – | – | 149 |
| Mr. Lau Jing Yeung William | *(ii)* | 149 | – | – | – | 149 |
| Mr. Gao Jianhua | *(ii)* | 149 | – | – | – | 149 |
| | | 447 | – | – | – | 447 |
| | | 447 | 1,616 | 30 | – | 2,093 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

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

### (i) Directors' remuneration (Continued)

| | | Year ended 31 December 2020 | | | | |
|---|---|---|---|---|---|---|
| | *Note* | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Contributions to retirement benefits scheme RMB'000 | Equity-settled share-based payment RMB'000 | Total emoluments RMB'000 |
| **Executive directors** | | | | | | |
| Mr. Zeng | | – | 437 | 9 | – | 446 |
| Ms. Zeng Minglan | | – | 345 | 9 | – | 354 |
| Mr. Wu Runlu | | – | 403 | 9 | – | 412 |
| Mr. Su Xinlin | *(iii)* | – | 437 | – | – | 437 |
| | | – | 1,622 | 27 | – | 1,649 |
| **Independent non-executive directors** | | | | | | |
| Mr. Suen To Wai | *(ii)* | – | – | – | – | – |
| Mr. Lau Jing Yeung William | *(ii)* | – | – | – | – | – |
| Mr. Gao Jianhua | *(ii)* | – | – | – | – | – |
| | | – | – | – | – | – |
| | | – | 1,622 | 27 | – | 1,649 |

*Notes:*

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

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

(iii) Mr. Su Xinlin resigned as Executive directors on 27 October 2021.

During the year ended 31 December 2021, 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 (2020: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

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

#### (ii) Five highest paid individuals

The five highest paid individuals of the Group included four directors (2020: three) whose emoluments are reflected in Note 14(i).

The analysis of the emolument of the remaining one highest paid individuals (2020: two) are set out below:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Salaries and other benefits | 456 | 713 |
| Contributions to retirement benefits scheme | 10 | 13 |
| | 466 | 726 |

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

| | 2021 | 2020 |
|---|---|---|
| Nil to HK$1,000,000 | 1 | 2 |

None (2020: 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:

| | 2021 | 2020 |
|---|---|---|
| Nil to HK$1,000,000 | 2 | 2 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 15. INCOME TAX EXPENSE

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Current tax — Enterprise Income Tax of the PRC (the "**PRC EIT**") | | |
| — for the year | **153,502** | 99,003 |
| — Over-provision in prior years | **(3,315)** | (821) |
| | **150,187** | 98,182 |
| Deferred tax *(Note 24)* | | |
| — for the year | **766** | (1,006) |
| Income tax expense | **150,953** | 97,176 |

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% (2020: 16.5%) on the estimated assessable profits.

Under the law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2020: 25%).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 15. INCOME TAX EXPENSE (CONTINUED)

And supplemented with the Announcement of No.12 (2021) issued the Ministry of Finance and the State Taxation Administration of the PRC, "Implementing the preferential income tax policies for micro and small enterprises and individual industrial and commercial households", for the period from 1 January 2021 to 31 December 2022, if its annual taxable profits do not exceed RMB1 million, only 12.5% of such amount is taxable at 20%; while if its annual taxable profits do exceed RMB1 million but less than RMB3 million, only 50% of such amount is taxable with a tax rate of 20%. However, if its annual taxable profits do exceed RMB3 million, the whole amount will be taxable at the tax rate of 25%.

Pursuant to 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% (2020: 15%) as they are recognised as the enterprises of Development of the West Regions according to the tax regulations of the PRC.

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

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| Profit before income tax expense | **1,039,020** | 637,859 |
| Tax calculated at the PRC EIT statutory tax rate of 25% (2020: 25%) | **259,755** | 159,465 |
| Different tax rates applied according to the relevant tax laws | **3,875** | — |
| Revenue not taxable for tax purposes | **(1,411)** | — |
| Expenses not deductible for tax purposes | **95** | 62 |
| Effect of tax preferential rates granted to the eligible PRC subsidiaries | **(105,507)** | (66,915) |
| Tax losses/temporary difference not recognised | **860** | 8,819 |
| Utilisation of unrecognised tax losses | **(3,399)** | (3,434) |
| Over-provision in respect of prior years | **(3,315)** | (821) |
| | **150,953** | 97,176 |

The weighted average effective tax rate was 14.5% (2020: 15.2%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 16. DIVIDENDS

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Dividend recognised as distribution during the year: | | |
| 2020 final dividend of RMB0.07 per share | 216,273 | — |

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 2021 (2020: HK$0.079 (equivalent to approximately RMB0.07) per Share, approximately RMB216,273,000).

### 17. EARNINGS PER SHARE

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

| | 2021 | 2020 |
|---|---|---|
| Profit for the year attributable to owners of the Company for the purpose of computation of basic earnings and diluted earnings per share (RMB'000) | 888,067 | 540,683 |
| Weighted average number of ordinary shares for the purpose of computation of basic and diluted earnings per share | 3,066,439,973 | 2,254,109,589 |
| Basic and diluted earnings per share (RMB) | 0.29 | 0.24 |

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2021 included the weighted average number of shares pursuant to exercise of the over-allotment option of 69,090,000 shares on 20 January 2021 (Note 29) and 3,000,000,000 shares issued throughout the year ended 31 December 2020.

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2020 included the weighted average number of shares pursuant to issuance of shares of 750,000,000 shares and 2,250,000,000 shares issued throughout the year ended 31 December 2020.

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 2021 and 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 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 2020 | 393,574 | 64,426 | 852,704 | 3,706 | 3,344 | – | 1,317,754 |
| Additions | – | – | 62,353 | 230 | – | – | 62,583 |
| Disposals | – | – | (7,449) | (302) | (9) | – | (7,760) |
| As at 31 December 2020 and 1 January 2021 | 393,574 | 64,426 | 907,608 | 3,634 | 3,335 | – | 1,372,577 |
| Additions | – | 19,982 | 104,727 | 2,077 | 2,990 | 8,413 | 138,189 |
| Disposals | – | – | (60,336) | – | – | – | (60,336) |
| As at 31 December 2021 | 393,574 | 84,408 | 951,999 | 5,711 | 6,325 | 8,413 | 1,450,430 |
| **Accumulated depreciation and impairment** | | | | | | | |
| As at 1 January 2020 | 75,632 | 8,892 | 269,829 | 1,951 | 1,925 | – | 358,229 |
| Provided for the year | 18,139 | 3,025 | 79,708 | 465 | 527 | – | 101,864 |
| Eliminated on disposals | – | – | (3,352) | (205) | (8) | – | (3,565) |
| As at 31 December 2020 and 1 January 2021 | 93,771 | 11,917 | 346,185 | 2,211 | 2,444 | – | 456,528 |
| Provided for the year | 18,139 | 3,068 | 81,146 | 689 | 623 | – | 103,665 |
| Eliminated on disposals | – | – | (43,712) | – | – | – | (43,712) |
| As at 31 December 2021 | 111,910 | 14,985 | 383,619 | 2,900 | 3,067 | – | 516,481 |
| **Net book value** | | | | | | | |
| As at 31 December 2021 | 281,664 | 69,423 | 568,380 | 2,811 | 3,258 | 8,413 | 933,949 |
| As at 31 December 2020 | 299,803 | 52,509 | 561,423 | 1,423 | 891 | – | 916,049 |

At 31 December 2021, the Group's buildings and machineries with an aggregate carrying amount of approximately RMB347,242,000 (2020: RMB336,671,000) were pledged to secure banking facilities granted to the Group (Note 27).

At 31 December 2021, the Group's machineries with an aggregate carrying amount of approximately RMB56,574,000 (2020: RMB22,419,000) were pledged to a non-related party for corporate guarantee provided by the non-related party on banking facilities granted to the Group (Note 27).

At 31 December 2021, the Group's machineries with an aggregate carrying amount of approximately RMB43,805,000 (2020: RMB89,194,000) were pledged to secure other loan granted to the Group (Note 27).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 19. RIGHT-OF-USE ASSETS

| | Land use right RMB'000 | Showroom and warehouse RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at 1 January 2020 | 22,880 | 2,306 | 25,186 |
| Effect on modification of lease terms | — | 8,974 | 8,974 |
| Depreciation for the year | (508) | (3,608) | (4,116) |
| As at 31 December 2020 and 1 January 2021 | 22,372 | 7,672 | 30,044 |
| Additions | 20,946 | — | 20,946 |
| Depreciation for the year | (655) | (3,855) | (4,510) |
| As at 31 December 2021 | 42,663 | 3,817 | 46,480 |

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

At 31 December 2021, the Group's land use right with an aggregate carrying amounts of approximately RMB10,954,000 (2020: RMB6,858,000) were pledged to secure banking facilities granted to the Group (Note 27).

At 31 December 2021, the Group's land use right with an aggregate carrying amounts of approximately RMB10,912,000 (2020: RMB11,159,000) were pledged to a non-related party for corporate guarantee provided by the non-related party on banking facilities granted to the Group (Note 27).

### 20. INVENTORIES

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Raw materials | **69,864** | 78,603 |
| Work-in-progress | **12,673** | 9,608 |
| Finished goods | **132,918** | 62,150 |
| | **215,455** | 150,361 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 21. TRADE RECEIVABLES

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Trade receivables | **1,298,047** | 1,198,068 |
| Less: Loss allowance | **(6,880)** | (11,981) |
| | **1,291,167** | 1,186,087 |

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

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

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Within 1 month | **955,443** | 561,353 |
| 1 to 2 months | **330,831** | 326,328 |
| 2 to 3 months | **11,773** | 310,191 |
| Over 3 months | **—** | 196 |
| | **1,298,047** | 1,198,068 |

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| As at 1 January | **11,981** | 5,276 |
| (Reversal of)/provision for impairment loss recognised on trade receivables, net *(Note 11)* | **(5,101)** | 6,705 |
| As at 31 December | **6,880** | 11,981 |

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 34.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Note | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| **Current** | | | |
| Prepayments | | **20** | 567 |
| Value added tax recoverable | | **52,999** | 47,759 |
| Other receivables | *(b)* | **187** | 2,244 |
| | | **53,206** | 50,570 |
| **Non-current** | | | |
| Prepayments for acquisition of property, plant and equipment and intangible assets | | **6,946** | 50 |
| Other receivables | *(b)* | **940** | 855 |
| | | **7,886** | 905 |
| | *(a)* | **61,092** | 51,475 |

*Notes:*

(a) The carrying amounts of prepayments, deposits and other receivables were primarily denominated in RMB and approximated their fair values due to their short maturity at the reporting date. There was no provision for impairment on prepayments, deposits and other receivables (2020: No provision).

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

### 23. CASH AND CASH EQUIVALENTS

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Cash and bank balances | **3,137,071** | 2,647,848 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 24. DEFERRED TAX

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

| | **Allowance for expected credit loss** RMB'000 |
|---|---|
| As at 1 January 2020 | 789 |
| Credited to profit or loss for the year | 1,006 |
| As at 31 December 2020 and 1 January 2021 | 1,795 |
| Charged to profit or loss for the year | (766) |
| As at 31 December 2021 | 1,029 |

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

| | **2021 RMB'000** | 2020 RMB'000 |
|---|---|---|
| Unused tax losses | **40,453** | 61,825 |

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:

| | **2021 RMB'000** | 2020 RMB'000 |
|---|---|---|
| Tax losses will expire in 2021 | **–** | 10,039 |
| Tax losses will expire in 2022 | **5,935** | 14,972 |
| Tax losses will expire in 2023 | **25,639** | 33,276 |
| Tax losses will expire in 2024 | **1,625** | 1,625 |
| Tax losses will expire in 2025 | **1,913** | 1,913 |
| Tax losses will expire in 2026 | **5,341** | – |
| | **40,453** | 61,825 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 24. DEFERRED TAX (CONTINUED)

(b) Under the EIT Law and Implementation Regulations, PRC withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to off-shore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. For the Group, the applicable tax rate is 10%. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB3,451,027,000 (2020: RMB2,610,300,000).

The Directors of the Company represent that the undistributed earnings of the PRC subsidiaries as at 31 December 2021 and 2020 will be set aside for expansion of operations, and therefore the Group has not provided for the deferred tax liabilities in respect of withholding tax on the remaining undistributed earnings of the Group's PRC entities as the Group is able to control the timing of reversal of such temporary difference and it is probable that such temporary difference would not be reversed in the foreseeable future.

### 25. TRADE PAYABLES

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| Trade payables | **358,167** | 338,531 |

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

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| Within six months | **358,167** | 338,531 |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 26. OTHER PAYABLES AND ACCRUALS

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Other payables | **25,212** | 62,199 |
| Accruals | **61,522** | 31,754 |
| | **86,734** | 93,953 |

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

### 27. BORROWINGS

| | *Notes* | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|---|
| **Current** | | | |
| Bank loans due for repayment within one year | *(a),(b)* | **365,513** | 299,000 |
| Other loans | *(c)* | **–** | 24,145 |
| | | **365,513** | 323,145 |
| **Non-current** | | | |
| Bank loans | *(a),(b)* | **110,487** | 235,000 |
| Other loans | *(c)* | **10,032** | 10,032 |
| | | **120,519** | 245,032 |
| Total borrowings | | **486,032** | 568,177 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 27. BORROWINGS (CONTINUED)

*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 RMB347,242,000 (2020: RMB336,671,000);

(ii) corporate guarantee given by a non-related party, in which machineries included in property, plant and equipment (Note 18) amounted to RMB56,574,000 (2020: RMB22,419,000) are pledged to this non-related party;

(iii) registered capital of Huisen Holding Investment (Ganzhou) Co., Limited amounted to US21,000,000 (2020: US$21,000,000);

(iv) land use right under right-of-use assets (Note 19) amounted to RMB10,954,000 (2020: RMB6,858,000); and

(v) corporate guarantee given by a non-related party, in which land use right under right-of-use assets (Note 19) amounted to RMB10,912,000 (2020: RMB11,159,000) are pledged to this non-related party.

(b) Interest are charged at fixed/floating effective interest rates ranging from 3.40% to 7.99% per annum ("**p.a.**") (2020: 3.40% to 7.99% p.a.).

(c) Other loans of RMB10,032,000 (2020: RMB34,177,000) are secured by the Group's machineries included in property, plant and equipment (Note 18) amounted to RMB43,805,000 (2020: RMB89,194,000). Interests are charged at fixed effective interest rates ranging from 0.79% to 1.199% p.a. (2020: 0.79% to 4.275% p.a.).

As at 31 December 2019, other loans of RMB6,950,000 are loans borrowed under the poverty alleviation loan scheme executed by the Ganzhou government. The loans were borrowed from poverty farmers and interests paid to the farmers were subsidised by the Ganzhou government. Interests are charged at fixed effective interest rates of 14.75% p.a. Then the loans were fully settled in October 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 27. BORROWINGS (CONTINUED)

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| **Bank loans** | | |
| On demand or within one year | **365,513** | 299,000 |
| More than one year, but not exceeding two years | **105,000** | 220,000 |
| More than two years, but not exceeding five years | **5,487** | 15,000 |
| | **476,000** | 534,000 |
| **Other loans** | | |
| On demand or within one year | **–** | 24,145 |
| More than one year, but not exceeding two years | **10,032** | 8,513 |
| More than two years, but not exceeding five years | **–** | 1,519 |
| | **10,032** | 34,177 |
| Total borrowings | **486,032** | 568,177 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 28. LEASE LIABILITIES

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| **Current** | | |
| Within one year | **8,035** | 3,750 |
| **Non-current** | | |
| More than one year, but not exceeding two years | **1,244** | 2,808 |
| More than two years, but not exceeding five years | **—** | 1,244 |
| | **1,244** | 4,052 |
| | **9,279** | 7,802 |

The leases of the Group are with fixed payments only (2020: fixed payments only). The lease contracts signed by the Group did not contain any extension options exercisable (2020: no extension options exercisable).

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

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| As at 1 January | **7,802** | 2,422 |
| Effect on modification of lease terms | **—** | 8,974 |
| Additions | **9,848** | — |
| Interest expense | **786** | 277 |
| Lease payments | **(9,157)** | (3,871) |
| As at 31 December | **9,279** | 7,802 |

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

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### 29. 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 2020 | 3,800,000 | 380,000 | 337,539 |
| Increase in authorised share capital *(Note (i))* | 6,200,000 | 620,000 | 506,591 |
| As at 31 December 2020, 1 January 2021 and 31 December 2021 | 10,000,000 | 1,000,000 | 844,130 |
| **Issued and fully paid** | | | |
| As at 1 January 2020 | 100 | 10 | 9 |
| Issuance of shares for Capitalisation Issue *(Note (ii))* | 750,000 | 75,000 | 63,309 |
| Issuance of new shares upon listing *(Note (ii))* | 2,249,900 | 224,990 | 189,921 |
| As at 31 December 2020 and 1 January 2021 | 3,000,000 | 300,000 | 253,239 |
| Exercise of the over-allotment option *(Note (iii))* | 69,090 | 6,909 | 5,779 |
| As at 31 December 2021 | 3,069,090 | 306,909 | 259,018 |

*Notes:*

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

(ii) In connection with the Company's issuance of new shares upon listing, the Company allotted and issued 300,000,000 shares and 450,000,000 shares of HK$0.1 each at a price of HK$1.77 per Share on 28 December 2020 and 29 December 2020 respectively as a result of the completion of listing. The gross proceeds from issuance of new shares of approximately RMB1,125,110,000 (equivalent to approximately HK$1,332,865,000) of which approximately RMB63,309,000 (equivalent to approximately HK$75,000,000) was credited to the Company's share capital, and the remaining balance of approximately RMB1,061,801,000 (equivalent to approximately HK$1,257,865,000) before deduction of share issuance expenses, was credited to share premium account. The share premium account can be used for deduction of share issuance expenses. After the share premium account of the Company being credited as a result of the issuance of new shares upon listing, RMB189,921,000 (equivalent to approximately HK$224,990,000) was capitalised from the share premium account and applied in paying up in full at par 2,249,900,000 new Shares for allotment and issue to shareholders whose names appear on the register of members of the Company at the close of business on 29 December 2020 in proportion to their respective shareholdings ("**Capitalisation Issue**").

## 29. SHARE CAPITAL (CONTINUED)

*Notes: (Continued)*

(iii) On 20 January 2021, over-allotment option in relation to initial public offering in the Stock Exchange of the Group was partially exercised and an aggregate of 69,090,000 Shares were issued at a price of HK$1.77 per Share accordingly. The total gross proceeds received by the Company in connection with over-allotment were approximately RMB101,249,000 (equivalent to HK$122,289,000), of which RMB5,779,000 were credited to the Company's share capital account. The remaining proceeds of RMB95,470,000 were credited to the Company's share premium account.

## 30. RESERVES

### (a) The Group

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

### (b) The Company

| | Share premium RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at 1 January 2020 | — | (9) | (9) |
| Issuance of new shares upon listing *(Note 29(ii))* | 1,061,801 | — | 1,061,801 |
| Capitalisation issue *(Note 29(ii))* | (189,921) | — | (189,921) |
| Expenses attributed to issuance of new shares upon listing | (94,341) | — | (94,341) |
| Loss for the year | — | (29,160) | (29,160) |
| As at 31 December 2020 and 1 January 2021 | 777,539 | (29,169) | 748,370 |
| Dividend recognised as distribution | (216,273) | — | (216,273) |
| Exercise of the over-allotment option in relation to initial public offer *(Note 29(iii))* | 95,470 | — | 95,470 |
| Loss for the year | — | (18,399) | (18,399) |
| As at 31 December 2021 | 656,736 | (47,568) | 609,168 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 30. 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. |
| Retained earnings/ (accumulated losses) | Cumulative net gains and loss recognised in profit and loss. |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 31. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Interest in subsidiaries | *32* | –* | –* |
| **Total non-current asset** | | –* | –* |
| **Current assets** | | | |
| Amounts due from subsidiaries | | 894,576 | 1,009,474 |
| Cash and cash equivalents | | 18 | 42,542 |
| **Total current assets** | | 894,594 | 1,052,016 |
| **Total assets** | | 894,594 | 1,052,016 |
| **Current liabilities** | | | |
| Amount due to a subsidiary | | 25,022 | 7,010 |
| Accruals | | 1,386 | 43,397 |
| **Total current liabilities** | | 26,408 | 50,407 |
| **Net current assets** | | 868,186 | 1,001,609 |
| **Total assets less current liabilities** | | 868,186 | 1,001,609 |
| **NET ASSETS** | | 868,186 | 1,001,609 |
| **Capital and reserves attributable to the owners of the Company** | | | |
| Share capital | *29* | 259,018 | 253,239 |
| Reserves | *30* | 609,168 | 748,370 |
| **Total equity** | | 868,186 | 1,001,609 |

* Represents amount less than RMB1,000.

**ZENG Ming**
*Director*

**ZENG Minglan**
*Director*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 32. INTEREST IN SUBSIDIARIES

#### The Company

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Unlisted investment, at cost | –* | –* |

* Represents amount less than RMB1,000.

Details of the principal subsidiaries are as follows:

| Name of subsidiary | Place of incorporation/ establishment and form of business structure | Percentage of equity attributable to the Company in 2021 and 2020 Directly | Indirectly | Issued and fully paid share capital/ registered capital | Principal activities and principal place of business |
|---|---|---|---|---|---|
| Haze Everest Limited (嵐峰有限公司) | BVI, limited liability company | 100% | – | US$50,000 | Investment holding, the BVI |
| Huisen International Group Limited (匯森國際集團有限公司) | Hong Kong ("**HK**"), limited liability company | – | 100% | HK$1 | Investment holding, HK |
| Huisen Holding Investment (Ganzhou) Co., Limited* (匯森控股投資(贛州)有限公司) | The PRC, limited liability company | – | 100% | US$21,000,000 | Investment holding, the PRC |
| Ganzhou Huiming Wood Industry Co., Limited* (贛州匯明木業有限公司) | The PRC, limited liability company | – | 100% | RMB185,767,009 | 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% | RMB413,627,653 | 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% | RMB229,452,288 | Development, production and sales of ready-to-assemble and knock-down furniture; household accessories and decorations, the PRC |
| Weiye Jiankang Technology (Longnan) Co., Limited* (偉業健康科技(龍南)有限公司) | The PRC, limited liability company | – | 100% | RMB22,035,846 | Development, production and sales of steel/metal type, outdoor and sports-type furniture, the PRC |
| Ganzhou Aigesen Wood Panel Co., Limited* (贛州愛格森人造板有限公司) | The PRC, limited liability company | – | 100% | RMB380,000,000 | Manufacture of wooden, particle and fiber panels or boards, the PRC |
| Huisen Smart Home Technology (Longnan) Co., Limited* (匯森智能家居科技(龍南)有限公司) | The PRC, limited liability company | – | 100% | RMB100,000,000 | Trading and sale of upholstered furniture, the PRC |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 32. INTEREST IN SUBSIDIARIES (CONTINUED)

| Name of subsidiary | Place of incorporation/ establishment and form of business structure | Percentage of equity attributable to the Company in 2021 and 2020 Directly | Indirectly | Issued and fully paid share capital/ registered capital | Principal activities and principal place of business |
|---|---|---|---|---|---|
| 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 | – | 100% | Registered capital RMB10,000,000 | Design, production and sales of tailor-made furniture; household accessories, the PRC |
| Huisen Environmental Protection Material Technology (Ganzhou) Co., Limited* ("**Huisen Environmental**") (匯森環保材料科技(贛州)有限公司) | The PRC, limited liability company | – | 100% | Registered capital RMB20,000,000 | Manufacturing of particleboards and medium-density fibreboards, the PRC |
| Jiangxi Aixusen Biotechnology Co., Limited* (江西艾氧森生物科技有限公司) | The PRC, limited liability company | – | –** | Registered capital RMB10,000,000 | Dormant, the PRC |

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

** Jiangxi Aixusen Biotechnology Co., Limited was a 100% owned subsidiary of the Company and had been dormant and without any capital injection since incorporation and was disposed to an independent third party with nil consideration on 16 July 2021.

## 33. 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 2021 and 2020 are set out in Note 14 to the consolidated financial statements.

## 34. FINANCIAL RISK MANAGEMENT

The Group's principal financial assets are trade receivables, other receivables, restricted bank deposits and cash and cash equivalents that derive directly from its operations. Principal financial liabilities of the Group include trade payables, other payables, borrowings, lease liabilities and amount due to an ultimate holding company. The main purpose of these financial liabilities is to finance the Group's operations.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (a) Credit risk

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

The Group's customers are mainly reputable corporations and thus credit risk is considered to be low. Credit risk on other receivables is minimal as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by the Group during the reporting period and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level. In response to the Covid-19 pandemic, management has also been performing more frequent reviews of credit limits for customers in regions and industries that are severely impacted.

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and others receivables. Management is of the opinion that the risk of default by counterparties is material and Note 21 details the loss allowance provision was recognised during the reporting period.

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have grouped based on shared credit risk characteristics and the days past due. The provision is determined as follows:

| | **Not yet due to less than 3 months past due** RMB'000 | **3 to 9 months past due** RMB'000 | **9 to 21 months past due** RMB'000 | **21 to 33 months past due** RMB'000 | **Over 33 months past due** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2021** | | | | | | |
| Expected loss rate | 0.53% | 7% | 20% | 40% | 100% | |
| Gross carrying amount | 1,298,047 | – | – | – | – | 1,298,047 |
| Loss allowance provision | 6,880 | – | – | – | – | 6,880 |
| **As at 31 December 2020** | | | | | | |
| Expected loss rate | 1% | 7% | 28% | 70% | 100% | |
| Gross carrying amount | 1,198,068 | – | – | – | – | 1,198,068 |
| Loss allowance provision | 11,981 | – | – | – | – | 11,981 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (a) Credit risk (Continued)

As at 31 December 2021 and 2020, the fair value of trade receivables approximated their carrying amounts. For the year ended 31 December 2021, the directors of the Group considered the effects of Covid-19 pandemic on the structure and credit status of the customers of the Group, and concluded that they were not significantly affected based on the information obtained up to the date of this report. As a result, the expected credit loss rates slightly decreased during the year ended 31 December 2021 (2020: 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.

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.

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| Five largest customers | **1,156,205** | 1,081,226 |

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Liquidity risk (Continued)

| | Weighted average effective interest rate % | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2021** | | | | | | |
| Trade payables | | 358,167 | 358,167 | 358,167 | – | – |
| Other payables and accruals | | 80,445 | 80,445 | 80,445 | – | – |
| Borrowings | 5.81% | 486,032 | 512,925 | 394,481 | 118,444 | – |
| Lease Liabilities | 6.17% | 9,279 | 9,677 | 8,319 | 505 | 853 |
| | | 933,923 | 961,214 | 841,412 | 118,949 | 853 |

| | Weighted average effective interest rate % | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2020** | | | | | | |
| Trade payables | | 338,531 | 338,531 | 338,531 | – | – |
| Other payables and accruals | | 90,604 | 90,604 | 90,604 | – | – |
| Borrowings | 5.90% | 568,177 | 622,343 | 408,241 | 161,636 | 52,466 |
| Lease Liabilities | 7.50% | 7,802 | 8,511 | 4,202 | 2,970 | 1,339 |
| | | 1,005,114 | 1,059,989 | 841,578 | 164,606 | 53,805 |

## 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Interest rate risk

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

Other than cash at bank (Note 23), 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 2021, 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 RMB650,000 (2020: RMB443,000). No impact would be on other components of consolidated equity in response to the general increase/decrease in interest rates.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (d) Foreign currency risk

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

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| **Denominated in US$** | | |
| Trade receivables | **1,276,874** | 1,175,143 |
| Cash and cash equivalents | **2,498** | 1,036,791 |
| **Overall net exposure** | **1,279,372** | 2,211,934 |

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 | |
|---|---|---|
| | 2021<br>RMB'000 | 2020<br>RMB'000 |
| **US$ to RMB** | | |
| Appreciation by 1% | **10,874** | 17,392 |
| Depreciation by 1% | **(10,874)** | (17,392) |

During the reporting period, the Group's financial assets and liabilities denominated in US$ were mainly trade receivables and bank borrowings. Trade receivables were of short maturity within 90 days; and bank borrowings denominated in US$ were repayable within one year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (e) Capital risk management

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

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

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

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| Total debt | **495,311** | 575,979 |
| Equity attributable to the owners of the Company | **4,713,392** | 3,940,349 |
| Total debt and equity | **5,208,703** | 4,516,328 |
| Gearing ratio | **11%** | 15% |

#### (f) Fair value

***Financial instruments not measured at fair value***

Financial instruments not measured at fair value include restricted bank deposits, cash and cash equivalents, trade receivables, other receivables, amount due to an ultimate holding company, trade payables, other payables and accruals and borrowings.

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2021 and 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 35. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| **Financial assets** | | |
| *Loans and receivables — non-current* | | |
| Other receivables | **940** | 855 |
| *Loans and receivables — current* | | |
| Trade receivables | **1,291,167** | 1,186,087 |
| Other receivables | **187** | 2,244 |
| Cash and cash equivalents | **3,137,071** | 2,647,848 |
| | **4,428,425** | 3,836,179 |
| | **4,429,365** | 3,837,034 |
| **Financial liabilities** | | |
| *Financial liabilities at amortised costs — current* | | |
| Trade payables | **358,167** | 338,531 |
| Other payables | **80,445** | 90,604 |
| Borrowings | **365,513** | 323,145 |
| Lease liabilities | **8,035** | 3,750 |
| | **812,160** | 756,030 |
| *Financial liabilities at amortised costs — non-current* | | |
| Borrowings | **120,519** | 245,032 |
| Lease liabilities | **1,244** | 4,052 |
| | **121,763** | 249,084 |
| | **933,923** | 1,005,114 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 36. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

**Reconciliation of liabilities arising from financing activities**

| | Borrowings<br>RMB'000 | Amounts due to a shareholder<br>RMB'000 | Amount due to an ultimate holding company<br>RMB'000 | Lease liabilities<br>RMB'000 |
|---|---|---|---|---|
| **As at 1 January 2020** | 656,016 | — | 13 | 2,422 |
| *Changes from cash flow:* | | | | |
| Proceeds from new borrowings | 192,199 | — | — | — |
| Repayment of borrowings | (280,038) | — | — | — |
| Repayment of principal portion of the lease liabilities | — | — | — | (3,594) |
| Advance from a shareholder | — | 356 | — | — |
| Repayment to a shareholder | — | (356) | — | — |
| Repayment to an ultimate holding company | — | — | (13) | — |
| Interest paid | (42,443) | — | — | (277) |
| | 525,734 | — | — | (1,449) |
| *Other changes:* | | | | |
| Interest expenses | 42,443 | — | — | 277 |
| Effect on modification of lease terms | — | — | — | 8,974 |
| **As at 31 December 2020 and 1 January 2021** | **568,177** | **—** | **—** | **7,802** |
| *Changes from cash flow:* | | | | |
| Proceeds from new borrowings | **202,000** | **—** | **—** | **—** |
| Repayment of borrowings | **(284,145)** | **—** | **—** | **—** |
| Repayment of principal portion of the lease liabilities | **—** | **—** | **—** | **(8,371)** |
| Interest paid | **(35,980)** | **—** | **—** | **(786)** |
| | **450,052** | **—** | **—** | **(1,355)** |
| *Other changes:* | | | | |
| Interest expenses | **35,980** | **—** | **—** | **786** |
| Increase in lease liabilities from entering into new leases during the year | **—** | **—** | **—** | **9,848** |
| As at 31 December 2021 | **486,032** | **—** | **—** | **9,279** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 37. 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:

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| Within one year | **134** | 113 |
| In the second to fifth year | **166** | 59 |
| | **300** | 172 |
| Initial period of the lease | **2 years to 5 years** | 2 years to 5 years |

### 38. CAPITAL COMMITMENTS

At 31 December 2021, the Group had outstanding commitments as follows:

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| Contracted but not provided in respect of: | | |
| — Acquisition of intangible assets | **6,000** | — |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 December 2021*

### 39. EVENT AFTER THE REPORTING DATE

Material events after the reporting date of the Group are as below:

(i) On 6 January 2022, an indirect wholly-owned subsidiary of the Group, Huisen Environmental entered into agreements with the Ganzhou Local Government, that Huisen Environmental should buy and the Ganzhou Local Government should sell the land use right of two parcels of land at RMB2,580,000 and RMB1,450,000 respectively. The final payment was made on 20 January 2022 and the Group is in the procedures for obtaining the land certificates.

(ii) On 14 January 2022, the Company announced that, for the benefit of expanding the smart furniture business segment of the Group, the Company granted the following share options to seven eligible participants (the "**Grantees**"), being external consultants of the Group, subject to the acceptance of the Grantees, under its share option scheme adopted on 2 December 2020.

The date of grant was 14 January 2022, 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 excise 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.

# FIVE YEARS FINANCIAL SUMMARY

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2017<br>RMB'000 | 2018<br>RMB'000 | 2019<br>RMB'000 | 2020<br>RMB'000 | **2021<br>RMB'000** |
| Revenue | 2,823,880 | 3,327,221 | 3,719,066 | 3,895,548 | **5,139,157** |
| Profit before income tax expense | 405,523 | 476,530 | 670,075 | 637,859 | **1,039,020** |
| Income tax expense | (70,742) | (91,066) | (101,772) | (97,176) | **(150,953)** |
| Profit for the year | 334,781 | 385,464 | 568,303 | 540,683 | **888,067** |
| **Profit for the year attributable to:** | | | | | |
| Owners of the Company | 334,781 | 385,464 | 568,303 | 540,683 | **888,067** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2017<br>RMB'000 | 2018<br>RMB'000 | 2019<br>RMB'000 | 2020<br>RMB'000 | **2021<br>RMB'000** |
| Non-current asset | 1,168,032 | 1,100,881 | 1,017,253 | 948,793 | **989,344** |
| Current asset | 1,983,591 | 2,160,252 | 2,369,947 | 4,034,866 | **4,696,899** |
| Current liabilities | 1,395,583 | 1,170,323 | 891,902 | 794,226 | **851,088** |
| Net current assets | 588,008 | 989,929 | 1,478,045 | 3,240,640 | **3,845,881** |
| Total assets less current liabilities | 1,756,040 | 2,090,810 | 2,495,298 | 4,189,433 | **4,835,155** |
| Non current liabilities | 312,061 | 290,145 | 126,401 | 249,084 | **121,763** |
| Net assets | 1,443,979 | 1,800,665 | 2,368,897 | 3,940,349 | **4,713,392** |
| **Capital and reserve** | | | | | |
| Share capital | — | 9 | 9 | 253,239 | **259,018** |
| Reserves | 1,443,979 | 1,800,656 | 2,368,888 | 3,687,110 | **4,454,374** |
| Equity attribute to the owner of the Company | 1,443,979 | 1,800,665 | 2,368,897 | 3,940,349 | **4,713,392** |
| Total equity | 1,443,979 | 1,800,665 | 2,368,897 | 3,940,349 | **4,713,392** |