

Hyfusin Group Holdings Limited

凱富善集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8512)

THIRD QUARTERLY ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2022

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This announcement, for which the directors (the “**Directors**”) of Hyfusin Group Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company and its subsidiaries (together, the “**Group**”). The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

The unaudited condensed consolidated results of the Group for the nine months ended 30 September 2022, together with the comparative unaudited figures for the corresponding period in 2021 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2022

	Notes	Three months ended		Nine months ended	
		30.9.2022 HK\$'000 (unaudited)	30.9.2021 HK\$'000 (unaudited)	30.9.2022 HK\$'000 (unaudited)	30.9.2021 HK\$'000 (unaudited)
Revenue	3	184,613	249,511	523,918	588,553
Cost of sales		<u>(132,893)</u>	<u>(170,844)</u>	<u>(374,881)</u>	<u>(394,645)</u>
Gross profit		51,720	78,667	149,037	193,908
Other income	4	1,643	461	2,550	1,159
Other losses	5	(1,068)	(2,417)	(322)	(2,175)
Selling and distribution expenses		(6,050)	(9,804)	(19,705)	(26,843)
Administrative expenses		(24,392)	(34,549)	(60,984)	(69,413)
Finance costs	6	(2,283)	(1,393)	(5,222)	(3,565)
Profit before income tax expenses	8	19,570	30,965	65,354	93,071
Income tax expenses	7	(3,931)	(6,078)	(12,259)	(16,819)
Profit for the period attributable to the owners of the Company		<u>15,639</u>	<u>24,887</u>	<u>53,095</u>	<u>76,252</u>
Other comprehensive income (expense) for the period					
Items that may be classified subsequently to profit or loss:					
Fair value gain (loss) on debt instruments measured at fair value through other comprehensive income		<u>27</u>	<u>(15)</u>	<u>(151)</u>	<u>(12)</u>
		<u>27</u>	<u>(15)</u>	<u>(151)</u>	<u>(12)</u>
Total comprehensive income for the period attributable to the owners of the Company		<u>15,666</u>	<u>24,872</u>	<u>52,944</u>	<u>76,240</u>
Earnings per share					
Basic and diluted (HK cents)	11	<u>1.42</u>	2.26	<u>4.83</u>	6.93

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2022

	Attributable to owners of the Company					Total <i>HK\$'000</i>
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Fair value through other comprehensive income ("FVTOCI") reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	
At 1 January 2021 (audited)	11,000	54,954	44	20,605	137,657	224,260
Profit for the period	-	-	-	-	76,252	76,252
Other comprehensive income:						
Fair value loss on debt instruments through other comprehensive income	-	-	(12)	-	-	(12)
Total comprehensive (expense) income for the period	-	-	(12)	-	76,252	76,240
As at 30 September 2021 (unaudited)	<u>11,000</u>	<u>54,954</u>	<u>32</u>	<u>20,605</u>	<u>213,909</u>	<u>300,500</u>
At 1 January 2022 (audited)	11,000	54,954	30	20,605	243,868	330,457
Profit for the period	-	-	-	-	53,095	53,095
Other comprehensive income:						
Fair value loss on debt instruments through other comprehensive income	-	-	(151)	-	-	(151)
Total comprehensive (expense) income for the period	-	-	(151)	-	53,095	52,944
As at 30 September 2022 (unaudited)	<u>11,000</u>	<u>54,954</u>	<u>(121)</u>	<u>20,605</u>	<u>296,963</u>	<u>383,401</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2022

1. GENERAL AND BASIS OF PREPARATION

Hyfusin Group Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as amended, supplemented or otherwise modified from time to time) of the Cayman Islands on 5 July 2017. The shares of the Company (the “**Shares**”) have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 19 July 2018 (the “**Listing**”). Its registered office is located at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and principal place of business is located at Unit Nos. 4–8, 2/F, Aberdeen Marina Tower, 8 Shum Wan Road, Aberdeen, Hong Kong.

The Company is an investment holding company and its subsidiaries (the “**Group**”) are principally engaged in manufacturing and sale of candle products. Its parent and ultimate holding company is AVW International Limited (“**AVW**”), a private company incorporated in the British Virgin Islands. Its ultimate controlling shareholders are Mr. Wong Man Chit and Mr. Wong Wai Chit, who are brothers and act in concert over AVW and the companies now comprising the Group.

The functional currency of the Company and its subsidiaries is United States Dollar (“**US\$**”) while the presentation currency of the consolidated financial statements is Hong Kong dollars (“**HK\$**”) as the directors of the Company (the “**Directors**”) consider that HK\$ is preferable in presenting the operating results and financial position of the Group, which is more beneficial to the users of the consolidated financial statements.

The condensed consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622) and the GEM Listing Rules.

The condensed consolidated financial statements of the Group have been prepared under the historical cost basis, except for certain financial instrument which have been measured at fair values.

2. PRINCIPAL ACCOUNTING POLICIES

Application of new and amendments to HKFRSs

The principal accounting policies used in the condensed consolidated financial statements for the nine months ended 30 September 2022 are the same as those followed in the preparation of the Group's annual report for the year ended 31 December 2021, except for the following new and amendments to HKFRSs issued by the HKICPA that are adopted for the first time for the current accounting period of the Group:

Amendments to HKFRS 3	Reference to Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the new and amendments to HKFRSs has no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

New/revised HKFRSs that have been issued but are not yet effective

The following new/revised 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.

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

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

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

The Group is in the process of making an assessment of what the impact of these new or revised HKFRSs is expected to be in the period of initial application. So far the Directors concluded that the adoption of the new HKFRSs will have no material impact on the amounts reported in the Group's condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

	Three months ended		Nine months ended	
	30.9.2022	30.9.2021	30.9.2022	30.9.2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sale of candle products				
Daily-use candles	42,479	45,660	83,996	119,225
Scented candles	118,093	170,626	368,268	398,581
Decorative candles	4,761	7,000	9,310	11,363
Others (including diffusers)	19,280	26,225	62,344	59,384
Total	184,613	249,511	523,918	588,553
Timing of revenue recognition				
At a point in time	184,613	249,511	523,918	588,553

The Group's market were department stores and buying agents headquartered in United States of America and United Kingdom.

The contracts for sales of goods to external customers are short-term and the contract prices are fixed and agreed with the customers.

(ii) Performance obligations for contracts with customers

Sale of candle products (revenue recognised at one point in time)

The Group sells candle products to external customers in which the revenue is recognised when the control of the goods has transferred to the customers, being when the goods have been shipped to the external customers' specific location.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All performance obligations for sale of candle products are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Segment information

Information reported to the executive Directors, being the chief operating decision maker (“CODM”), regularly review revenue analysis by product type as set out in the revenue analysis above for the purpose of resource allocation and assessment of performance. However, other than revenue analysis, no operating results and other discrete financial information is regularly reviewed by the CODM for the purpose of resource allocation and assessment of performance of respective businesses. The CODM reviews the operating results (excluding listing expenses) of the Group as a whole to make decisions about resource allocation and for assessment of performance. The operation of the Group constitutes one single operating and reportable segment under HKFRS 8 Operating Segments and accordingly no separate segment information is presented.

Geographical Information

The Group’s operations are located in Hong Kong and Vietnam.

Information about the Group’s revenue from external customers is presented based on the location of the destination points of the customers.

Revenue from external customers

	Three months ended		Nine months ended	
	30.9.2022	30.9.2021	30.9.2022	30.9.2021
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
United States of America	156,843	209,080	455,415	532,484
United Kingdom	26,928	38,719	64,096	49,023
Others	842	1,712	4,407	7,046
Total	184,613	249,511	523,918	588,553

4. OTHER INCOME

	Three months ended		Nine months ended	
	30.9.2022	30.9.2021	30.9.2022	30.9.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Bank Interest income	98	–	141	11
Interest income on debt instruments at FVTOCI	–	–	29	29
Sample income	16	22	16	22
Sundry income	1,529	439	2,364	1,097
	<u>1,643</u>	<u>461</u>	<u>2,550</u>	<u>1,159</u>

5. OTHER LOSSES

	Three months ended		Nine months ended	
	30.9.2022	30.9.2021	30.9.2022	30.9.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net foreign exchange gain (loss)	641	25	1,089	(264)
Fair value gain (loss) on financial assets at fair value through profit or loss	–	–	–	2
Write-off of trade receivables	–	–	–	(101)
Impairment loss on trade receivables	(1,709)	(2,442)	(1,411)	(1,812)
	<u>(1,068)</u>	<u>(2,417)</u>	<u>(322)</u>	<u>(2,175)</u>

6. FINANCE COSTS

	Three months ended		Nine months ended	
	30.9.2022	30.9.2021	30.9.2022	30.9.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest on bank borrowings	2,262	1,333	5,132	3,390
Interest on lease liabilities	21	60	90	175
	<u>2,283</u>	<u>1,393</u>	<u>5,222</u>	<u>3,565</u>

7. INCOME TAX EXPENSES

	Three months ended		Nine months ended	
	30.9.2022	30.9.2021	30.9.2022	30.9.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current tax:				
– Hong Kong Profits Tax	2,166	2,230	8,566	11,283
– Vietnam Corporate Income Tax	1,780	3,840	3,443	5,692
	<u>3,946</u>	<u>6,070</u>	<u>12,009</u>	<u>16,975</u>
Deferred taxation:				
Current period	(15)	8	250	(156)
	<u>3,931</u>	<u>6,078</u>	<u>12,259</u>	<u>16,819</u>

Under the two-tier profits tax regime, Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million for Fleming International Limited, the subsidiary of the Company incorporated in Hong Kong, for the nine months ended 30 September 2022 and 2021.

For Fleming International Vietnam Limited, the subsidiary of the Company incorporated in Vietnam, the statutory corporate tax rates are 20% for the nine months ended 30 September 2022 and 2021.

8. PROFIT BEFORE INCOME TAX EXPENSES

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

	Three months ended		Nine months ended	
	30.9.2022 HK\$'000 (unaudited)	30.9.2021 HK\$'000 (unaudited)	30.9.2022 HK\$'000 (unaudited)	30.9.2021 HK\$'000 (unaudited)
Auditor's remuneration	250	225	750	675
Cost of inventories recognised as an expense	132,893	170,844	374,881	394,645
Allowance (reversal of allowance) of inventories (included in cost of sales)	499	(415)	654	(54)
Write-off of trade receivables	–	–	–	101
Donations	68	6	96	96
Depreciation of right-of-use assets	905	902	2,713	2,713
Less: capitalised in inventories	(187)	(187)	(560)	(560)
	<u>718</u>	<u>715</u>	<u>2,153</u>	<u>2,153</u>
Depreciation of property, plant and equipment	2,127	776	5,568	2,352
Less: capitalised in inventories	(1,745)	(563)	(4,341)	(1,716)
	<u>382</u>	<u>213</u>	<u>1,227</u>	<u>636</u>
Employee benefit expenses (excluding directors' remuneration):				
– Salaries and allowances	11,366	23,974	38,651	58,783
– Discretionary bonus	1,530	1,001	3,825	3,125
– Retirement benefit scheme contribution	1,918	2,565	6,961	7,968
	<u>14,814</u>	<u>27,540</u>	<u>49,437</u>	<u>69,876</u>
Less: capitalised in inventories	(10,356)	(20,658)	(32,293)	(51,350)
	<u>4,458</u>	<u>6,882</u>	<u>17,144</u>	<u>18,526</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the manufacturing and sale of candle products with headquarters in Hong Kong and operations in Vietnam. The Group mainly manufactures and sells daily-use candles, scented candles, decorative candles and other products such as diffusers. The major customers of the Group are mostly U.S. and U.K. department store operators and buying agents.

The Group mainly manufactures candle products based on the requirements and specifications from its customers. The Group would also assess the design and specifications and put forward suggestions to its customers. The Group offers a wide variety of services to its customers ranging from product design, raw material selection and procurement, provision of sample candle before mass production, laboratory testing to recommendation to improve the product quality.

The Group targets in mid-to-high end candle products in overseas markets in different countries and regions, mainly in U.S. and U.K. markets. The candle market has an increasing preference over candle products which are scented and with colour additives. With the preference for candle products with scent and coloured additives for use in rooms and households, increasing demand for scented candle products has provided the impetus for the whole market. We are welcomed and favoured by consumers, and are therefore confident about the future business development of the Group.

The analysis of product segment of the Group for the nine months ended 30 September 2022 is set out in Note 3 to the condensed consolidated financial statements. Nevertheless the overall revenue decreased due to the decrease in the orders from customers, the scented candles remained the best selling product of the Group during the nine months ended 30 September 2022, which the sales of scented candles slightly dropped by approximately HK\$30.3 million or 7.6% as compared with the same period in 2021. The trend of preference for candle products with scent and coloured additives remains the same in the U.S. market.

In order to catch up the rapid growth of candle products especially in the U.S. market, the Group entered into the contracts with sales representatives for the sales incentive to sales representatives for the orders from customers introduced by them since 2018. The management of the Group gladly cooperates with sales representatives and expects the potential orders introduced by sales representatives in future.

In 2021, the Group was continuously awarded as one of the winners of “Business Partner Award Winner for Differentiate Owned Brands” from its major customer since 2020, as it helped its customers to evolve their category of candle products and increase their sales in candle products. The Group consistently offers compelling designs, competitive price while ensuring product quality, responsible sourcing, sustainability, and a commitment to business partners.

Based on the well established long-term relationships with the customers and with support from the experienced management team of the Group in the industry, the Group has confidence in capturing business opportunities and growth in future.

Since early 2020, the novel coronavirus (“**COVID-19**”) pandemic has spread worldwide and caused significant threats to the global health and economy.

The outbreak of the COVID-19 has brought about additional uncertainties in the Group’s operating environment and may affect the Group’s operations and financial position.

Fortunately, the main businesses of the Group located in Vietnam and Hong Kong had not been affected, mainly attributable to (i) the effective management in stable supply of raw materials for production; and (ii) the Group’s enhanced protection against the COVID-19 to ensure the production.

The Group has been closely monitoring the impact from the COVID-19 on the Group’s businesses to ensure the safety of employees and stable operations. Based on the information currently available, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group up to the date of this announcement. However, the actual impacts may differ from these estimates as the situation continues evolving and is subject to further information becomes available.

FINANCIAL REVIEW

Revenue

Revenue for the nine months ended 30 September 2022 amounted to approximately HK\$523.9 million, representing a decrease of approximately HK\$64.7 million or 11.0% as compared with that of approximately HK\$588.6 million for the same period in 2021.

The decrease in revenue was mainly due to the decrease in sales of scented candles and daily-use candles of approximately HK\$30.3 million and HK\$35.2 million respectively for the nine months ended 30 September 2022.

Gross profit and gross profit margin

Gross profit for the nine months ended 30 September 2022 amounted to approximately HK\$149.0 million, representing a decrease of approximately HK\$44.9 million or 23.2% as compared with that of approximately HK\$193.9 million for the same period in 2021.

The gross profit margin decreased to approximately 28.4% for the nine months ended 30 September 2022 as compared with that of approximately 32.9% for the same period in 2021. The decrease in the gross profit margin was mainly due to the increase in the unit price of the raw materials and the increase of production overhead for the nine months ended 30 September 2022.

Other losses

Other losses for the nine months ended 30 September 2022 amounted to approximately HK\$0.3 million, representing a decrease of approximately HK\$1.9 million or 86.4% as compared with other losses of approximately HK\$2.2 million for the same period in 2021. The decrease was mainly due to the increase in net foreign exchange gain of approximately HK\$1.4 million for the nine months ended 30 September 2022.

Selling and distribution expenses

Selling and distribution expenses for the nine months ended 30 September 2022 amounted to approximately HK\$19.7 million, representing a decrease of approximately HK\$7.1 million or 26.5% as compared with that of approximately HK\$26.8 million for the same period in 2021.

The decrease was mainly due to (i) the decrease in transportation and declarations expenses of approximately HK\$4.3 million; and (ii) the decrease in marketing and promotion expenses of approximately HK\$2.3 million.

Administrative expenses

Administrative expenses for the nine months ended 30 September 2022 amounted to approximately HK\$61.0 million, representing a decrease of approximately HK\$8.4 million or 12.1% as compared with that of approximately HK\$69.4 million for the same period in 2021. The decrease in administrative expenses was mainly due to the decrease in salary, bonus and allowance of approximately HK\$11.2 million and net off by the increase in travelling, legal and professional expenses of approximately HK\$1.3 million.

Finance costs

Finance costs for the nine months ended 30 September 2022 amounted to approximately HK\$5.2 million, representing an increase of approximately HK\$1.6 million or 44.4% as compared to that of approximately HK\$3.6 million for the same period in 2021.

The increase was mainly due to the increase in interest rate of bank borrowings for business operation.

Profit for the period

The Group recorded net profit of approximately HK\$53.1 million for the nine months ended 30 September 2022, representing a decrease of approximately HK\$23.2 million or 30.4% as compared with net profit of approximately HK\$76.3 million for the same period in 2021.

Such decrease was mainly due to the decrease in gross profit of approximately HK\$44.9 million and offset by (i) the decrease in selling and distribution expenses of approximately HK\$7.1 million; (ii) the decrease in administrative expenses of approximately HK\$8.4 million; and (iii) the decrease in tax expenses of approximately HK\$4.5 million.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Capital Assets

As disclosed in the announcement of the Company dated 9 March 2022, Fleming International Vietnam Limited, an indirectly wholly-owned subsidiary of the Company, as transferee, entered into a transfer agreement with Pacific Investment and Production Joint Stock Company, as transferor, to acquire the land use right of a parcel of land situated at Long Binh (Amata) Industrial Park, Dong Nai Province, Vietnam (land plot No. 56 map sheet No. 10) with a gross floor area of 19,999.7 sq.m. for a lease term at the consideration of VND93,186,000,000 (excluding value-added tax) (equivalent to approximately HK\$31.9 million).

As at 30 September 2022, the total consideration of VND93,186,000,000 (equivalent to approximately HK\$31.9 million) was fully paid in accordance with the transfer agreement.

Save as disclosed above, the Group did not have any significant investments, material acquisitions and disposals of subsidiaries and capital assets during the nine months ended 30 September 2022.

EVENT AFTER THE END OF REPORTING PERIOD

There are no significant events affecting the Group after the reporting period and up to the date of this announcement.

DIVIDEND

The Board does not declare the payment of an interim dividend for the nine months ended 30 September 2022.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings (the “**Required Standard of Dealings**”) set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all the Directors, each of them have confirmed that they have complied with the Required Standard of Dealings for the nine months ended 30 September 2022. No incident of non-compliance was noted by the Company for the nine months ended 30 September 2022.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2022 and up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to achieve high standards of corporate governance to safeguard the interests of the shareholders of the Company and enhance its corporate value. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code in Appendix 15 to the GEM Listing Rules (the “**CG Code**”). During the nine months ended 30 September 2022, to the best knowledge of the Board, the Company had complied with the code provisions in the CG Code.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) has been established with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and code provision D.3.3 of the CG Code. The Audit Committee currently comprises three independent non-executive Directors and is chaired by Mr. Chan Cheong Tat. The other members are Mr. Chu Kin Wang, Peleus and Mr. Ho Chi Wai. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process, the internal control systems of the Group and the monitoring of continuing connected transactions. All members of the Audit Committee are appointed by the Board.

The Audit Committee had reviewed the unaudited consolidated results of the Group for the nine months ended 30 September 2022 and is of the opinion that such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

As at the date of this announcement, the Directors are:

EXECUTIVE DIRECTORS

Mr. Wong Wai Chit (*Chairman*)

Mr. Wong Man Chit (*Chief Executive Officer*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Cheong Tat

Mr. Ho Chi Wai

Mr. Chu Kin Wang, Peleus

Hong Kong, 7 November 2022

This announcement will remain on the “Latest Listed Company Information” page of the Stock Exchange’s website at www.hkexnews.hk for at least 7 days from the date of its posting and will also be published on the Company’s website at www.hyfusingroup.com.