

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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2023

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

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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 three months ended 31 March 2023, together with the comparative unaudited figures for the corresponding period in 2022 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2023

| | | Three months ended | |
|--|--------------|---------------------------|--------------------|
| | | 31.3.2023 | 31.3.2022 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| | | (unaudited) | (unaudited) |
| Revenue | 3 | 147,141 | 155,282 |
| Cost of sales | | <u>(93,670)</u> | <u>(111,223)</u> |
| Gross profit | | 53,471 | 44,059 |
| Other income | 4 | 671 | 348 |
| Other losses | 5 | (1,344) | (1,032) |
| Selling and distribution expenses | | (5,388) | (6,502) |
| Administrative expenses | | (21,023) | (13,713) |
| Finance costs | 6 | <u>(2,128)</u> | <u>(1,274)</u> |
| Profit before income tax expense | 8 | 24,259 | 21,886 |
| Income tax expense | 7 | <u>(4,472)</u> | <u>(3,869)</u> |
| Profit for the period attributable to the owners of the Company | | <u>19,787</u> | <u>18,017</u> |
| Other comprehensive income (expense) for the period | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Fair value gain (loss) on debt instruments measured at fair value through other comprehensive income | | <u>37</u> | <u>(100)</u> |
| | | <u>37</u> | <u>(100)</u> |
| Total comprehensive income for the period attributable to the owners of the Company | | <u>19,824</u> | <u>17,917</u> |
| Earnings per share | | | |
| Basic and diluted (HK cents) | 11 | <u>1.8</u> | <u>1.64</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2023

| | 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 reserve <i>HK\$'000</i> | Other reserves <i>HK\$'000</i> | Retained earnings <i>HK\$'000</i> | |
| At 1 January 2022 (audited) | 11,000 | 54,954 | 30 | 20,605 | 243,868 | 330,457 |
| Profit for the period | - | - | - | - | 18,017 | 18,017 |
| Fair value loss on debt instruments through other comprehensive income | - | - | (100) | - | - | (100) |
| Profit and total comprehensive (expense) income for the period | - | - | (100) | - | 18,017 | 17,917 |
| As at 31 March 2022 (unaudited) | 11,000 | 54,954 | (70) | 20,605 | 261,885 | 348,374 |
| At 1 January 2023 (audited) | 11,000 | 54,954 | (222) | 20,605 | 316,926 | 403,263 |
| Profit for the period | - | - | - | - | 19,787 | 19,787 |
| Fair value gain on debt instruments through other comprehensive income | - | - | 37 | - | - | 37 |
| Profit and total comprehensive income for the period | - | - | 37 | - | 19,787 | 19,824 |
| As at 31 March 2023 (unaudited) | 11,000 | 54,954 | (185) | 20,605 | 336,713 | 423,087 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2023

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 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 (the “**BVI**”). 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 “**Controlling Shareholders**”).

The functional currency of the Company and its subsidiaries is United States dollars (“**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 three months ended 31 March 2023 are the same as those followed in the preparation of the Group's annual report for the year ended 31 December 2022, 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 the 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 |
| HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |
| Amendments to HKAS 8 | Definition of Accounting Estimates |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |

The adoption of the above amendments to HKFRSs has no material impact on the Group's results and financial position for the current or prior years. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

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.

| | |
|------------------------------------|---|
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹ |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback ² |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current (the “ 2020 Amendments ”) ^{2,3} |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants (the “ 2022 Amendments ”) ² |

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2024.

³ As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised to align the corresponding wording with no change in conclusion.

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) Disaggregated revenue information

| | Three months ended | |
|--------------------------------------|---------------------------|-----------------|
| | 31.3.2023 | 31.3.2022 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Sale of candle products | | |
| Daily-use candles | 16,582 | 14,108 |
| Scented candles | 110,228 | 118,206 |
| Decorative candles | 1,875 | 1,586 |
| Others (including Diffusers) | 18,456 | 21,382 |
| | <u>147,141</u> | <u>155,282</u> |
| Total | 147,141 | 155,282 |
| Timing of revenue recognition | | |
| A point in time | 147,141 | 155,282 |
| | <u>147,141</u> | <u>155,282</u> |

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

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 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 | |
|--------------------------|--------------------|----------------|
| | 31.3.2023 | 31.3.2022 |
| | HK\$’000 | HK\$’000 |
| | (unaudited) | (unaudited) |
| United States of America | 142,331 | 124,730 |
| United Kingdom | 4,560 | 29,264 |
| Others | 250 | 1,288 |
| Total | 147,141 | 155,282 |

4. OTHER INCOME

| | Three months ended | |
|----------------------|--------------------|-------------|
| | 31.3.2023 | 31.3.2022 |
| | HK\$’000 | HK\$’000 |
| | (unaudited) | (unaudited) |
| Bank interest income | 422 | 4 |
| Sundry income | 3 | 53 |
| Others | 246 | 291 |
| | 671 | 348 |

5. OTHER LOSSES

| | Three months ended | |
|--------------------------------------|--------------------|----------------|
| | 31.3.2023 | 31.3.2022 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Net foreign exchange (losses)/gains | (498) | 45 |
| Impairment loss on trade receivables | (846) | (1,077) |
| | <u>(1,344)</u> | <u>(1,032)</u> |

6. FINANCE COSTS

| | Three months ended | |
|-------------------------------|--------------------|--------------|
| | 31.3.2023 | 31.3.2022 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Interest on bank borrowings | 2,042 | 1,235 |
| Interest on lease liabilities | 86 | 39 |
| | <u>2,128</u> | <u>1,274</u> |

7. INCOME TAX EXPENSE

| | Three months ended | |
|----------------------------------|--------------------|--------------|
| | 31.3.2023 | 31.3.2022 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Current tax: | | |
| – Hong Kong Profits Tax | 2,830 | 3,500 |
| – Vietnam Corporate Income Tax | 1,464 | 53 |
| – Singapore Corporate Income Tax | 62 | – |
| | <u>4,356</u> | <u>3,553</u> |
| Deferred taxation: | | |
| Current period | <u>116</u> | <u>316</u> |
| | <u>4,472</u> | <u>3,869</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 three months ended 31 March 2023 and 2022.

For Fleming International Vietnam Limited, the subsidiary of the Company incorporated in Vietnam, the statutory corporate tax rates are 20% for the three months ended 31 March 2023 and 2022.

For Fleming International (Singapore) Pte. Limited, the subsidiary of the Company incorporated in Singapore, the statutory corporate tax rate is 17% for the three months ended 31 March 2023 (2022: no estimated chargeable income).

8. PROFIT BEFORE INCOME TAX EXPENSE

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

| | Three months ended | |
|---|---------------------------|---------------------|
| | 31.3.2023 | 31.3.2022 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Auditor's remuneration | 250 | 250 |
| Cost of inventories recognised as an expense | 93,670 | 111,223 |
| Allowance/(Reversal of allowance) of inventories (included in cost of sales) | 630 | (492) |
| Donations | 86 | 28 |
| Depreciation of right-of-use assets | 939 | 904 |
| Less: capitalised in inventories | <u>(187)</u> | <u>(187)</u> |
| | <u>752</u> | <u>717</u> |
| Depreciation of property, plant and equipment | 2,191 | 1,658 |
| Less: capitalised in inventories | <u>(1,748)</u> | <u>(1,157)</u> |
| | <u>443</u> | <u>501</u> |
| Employee benefit expenses (excluding directors' remuneration): | | |
| – Salaries and allowances | 11,421 | 13,624 |
| – Discretionary bonus | 1,049 | 1,154 |
| – Retirement benefit scheme contribution | <u>2,450</u> | <u>2,582</u> |
| Total employee benefit expenses | 14,920 | 17,360 |
| Less: capitalised in inventories | <u>(8,505)</u> | <u>(10,867)</u> |
| | <u>6,415</u> | <u>6,493</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 three months ended 31 March 2023 is set out in Note 3 to the condensed consolidated financial statements. The scented candles remains the best selling product of the Group during the three months ended 31 March 2023, which accounted for approximately 74.9% (2022: approximately 76.1%) of the total sales. It reflects 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 past two consecutive years, the Group was continuously awarded as one of the winners of “Business Partner Award Winner for Differentiate Owned Brands” and in 2022, the Group was firstly awarded as one of the winners of “Business Partner Award Winner for Invest in Talent and Culture” from our major customer, as we helped our customer 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 our experienced management team of the Group in the industry, the Group has confidence in capturing business opportunities and growth in future.

FINANCIAL REVIEW

Revenue

Revenue for the three months ended 31 March 2023 amounted to approximately HK\$147.1 million, representing a decrease of approximately HK\$8.2 million or 5.3% as compared with that of approximately HK\$155.3 million for the same period in 2022.

The decrease in revenue was due to the decrease in sales of scented candles for approximately HK\$8.0 million for the three months ended 31 March 2023.

Gross profit and gross profit margin

Gross profit for the three months ended 31 March 2023 amounted to approximately HK\$53.5 million, representing an increase of approximately HK\$9.4 million or 21.3% as compared with that of approximately HK\$44.1 million for the same period in 2022.

The gross profit margin increased to approximately 36.3% for the three months ended 31 March 2023 as compared with that of approximately 28.4% for the same period in 2022. The increase in the gross profit margin was mainly due to the decrease in the unit price of the raw materials especially the wax for the three months ended 31 March 2023.

Other losses

Other losses for the three months ended 31 March 2023 amounted to approximately HK\$1.3 million, representing an increase of approximately HK\$0.3 million or 30.0% as compared with other losses of approximately HK\$1.0 million for the same period in 2022. The increase was mainly due to the increase in net exchange losses of approximately HK\$543,000.

Selling and distribution expenses

Selling and distribution expenses for the three months ended 31 March 2023 amounted to approximately HK\$5.4 million, representing a decrease of approximately HK\$1.1 million or 16.9% as compared with that of approximately HK\$6.5 million for the same period in 2022. The decrease was mainly due to the decrease in marketing and promotion expenses of approximately HK\$0.7 million and decrease in transportation and declarations expenses of approximately HK\$0.5 million.

Administrative expenses

Administrative expenses for the three months ended 31 March 2023 amounted to approximately HK\$21.0 million, representing an increase of approximately HK\$7.3 million or 53.3% as compared with that of approximately HK\$13.7 million for the same period in 2022. The increase in administrative expenses was mainly due to the increase in salary and allowance of approximately HK\$7.9 million.

Finance costs

Finance costs for the three months ended 31 March 2023 amounted to approximately HK\$2.1 million, representing an increase of approximately HK\$0.8 million or 61.5% as compared to that of approximately HK\$1.3 million for the same period in 2022. The increase was mainly due to the increase in interest rate of bank borrowings for business operation.

Profit for the period

The Group incurred net profit of approximately HK\$19.8 million for the three months ended 31 March 2023, representing an increase of approximately HK\$1.8 million or 10.0% as compared with net profit of approximately HK\$18.0 million for the same period in 2022.

Such changes were the combined effect of increase in gross profit of approximately HK\$9.4 million and net off by the (i) increase in other losses of approximately HK\$0.3 million; and (ii) increase in administrative expenses of approximately HK\$7.3 million.

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

The Group did not have any significant investments, material acquisitions and disposals of subsidiaries and capital assets during the three months ended 31 March 2023.

EVENT AFTER THE 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 of Directors (the “**Board**”) does not declare the payment of any dividend for the three months ended 31 March 2023.

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 three months ended 31 March 2023. No incident of non-compliance was noted by the Company for the three months ended 31 March 2023.

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 reporting period 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 three months ended 31 March 2023, 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 first quarterly report and the unaudited consolidated results of the Group for the three months ended 31 March 2023 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, 8 May 2023

This announcement will remain on the “Latest Company Announcements” 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.