

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 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 six months ended 30 June 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 six months ended 30 June 2022

	Notes	Three months ended		Six months ended	
		30.6.2022 HK\$'000 (unaudited)	30.6.2021 HK\$'000 (unaudited)	30.6.2022 HK\$'000 (unaudited)	30.6.2021 HK\$'000 (unaudited)
Revenue	3	184,023	199,509	339,305	339,042
Cost of sales		<u>(130,765)</u>	<u>(131,810)</u>	<u>(241,988)</u>	<u>(223,801)</u>
Gross profit		53,258	67,699	97,317	115,241
Other income	4	559	478	907	698
Other gains and losses	5	1,778	1,015	746	242
Selling and distribution expenses		(7,153)	(9,651)	(13,655)	(17,039)
Administrative expenses		(22,879)	(18,160)	(36,592)	(34,864)
Finance costs	6	(1,665)	(1,004)	(2,939)	(2,172)
Profit before income tax expense	8	23,898	40,377	45,784	62,106
Income tax expense	7	(4,459)	(7,047)	(8,328)	(10,741)
Profit for the period attributable to the owners of the Company		<u>19,439</u>	<u>33,330</u>	<u>37,456</u>	<u>51,365</u>
Other comprehensive income (expense) for the period					
Items that may be classified subsequently to profit or loss:					
Fair value (loss) gain on debt instruments measured at fair value through other comprehensive income		<u>(78)</u>	<u>26</u>	<u>(178)</u>	<u>3</u>
		<u>(78)</u>	<u>26</u>	<u>(178)</u>	<u>3</u>
Total comprehensive income for the period attributable to the owners of the Company		<u>19,361</u>	<u>33,356</u>	<u>37,278</u>	<u>51,368</u>
Earnings per share					
Basic and diluted (HK cents)	11	<u>1.77</u>	<u>3.03</u>	<u>3.41</u>	<u>4.67</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	<i>12</i>	64,121	60,721
Right-of-use assets		19,721	21,527
Prepayment for a land use right		24,984	–
Deposits for the acquisition of property, plant and equipment		3,870	11,850
Debt instruments at fair value through other comprehensive income		974	1,152
Deferred tax assets		766	1,031
Pledged bank deposits	<i>15</i>	25,996	19,904
Total non-current assets		140,432	116,185
CURRENT ASSETS			
Inventories	<i>13</i>	133,620	138,978
Trade and other receivables	<i>14</i>	106,156	89,473
Bank balances and cash	<i>15</i>	139,075	138,347
Total current assets		378,851	366,798
Total assets		519,283	482,983
CURRENT LIABILITIES			
Trade and other payables	<i>16</i>	56,108	82,673
Contract liabilities	<i>17</i>	84	12
Bank borrowings	<i>18</i>	55,362	46,912
Lease liabilities		1,794	2,890
Tax payable		10,611	3,699
Total current liabilities		123,959	136,186
NET CURRENT ASSETS		254,892	230,612
TOTAL ASSETS LESS CURRENT LIABILITIES		395,324	346,797

	<i>Notes</i>	30.6.2022 HK\$'000 (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
NON-CURRENT LIABILITIES			
Bank borrowings	<i>18</i>	27,272	15,669
Lease liabilities		138	469
Other non-current liabilities		179	202
		<hr/>	<hr/>
Total non-current liabilities		27,589	16,340
		<hr/>	<hr/>
Total liabilities		151,548	152,526
		<hr/>	<hr/>
NET ASSETS		367,735	330,457
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>19</i>	11,000	11,000
Reserves		356,735	319,457
		<hr/>	<hr/>
TOTAL EQUITY		367,735	330,457
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Fair value through other comprehensive income ("FVTOCI") reserve HK\$'000	Other reserve HK\$'000	Retained earnings HK\$'000	
At 1 January 2021 (audited)	11,000	54,954	44	20,605	137,657	224,260
Profit for the period	-	-	-	-	51,365	51,365
Other comprehensive income:						
Fair value gain on debt instruments through other comprehensive income	-	-	3	-	-	3
Total comprehensive income for the period	-	-	3	-	51,365	51,368
As at 30 June 2021 (unaudited)	11,000	54,954	47	20,605	189,022	275,628
At 1 January 2022 (audited)	11,000	54,954	30	20,605	243,868	330,457
Profit for the period	-	-	-	-	37,456	37,456
Other comprehensive income:						
Fair value loss on debt instruments through other comprehensive income	-	-	(178)	-	-	(178)
Total comprehensive income for the period	-	-	(178)	-	37,456	37,278
As at 30 June 2022 (unaudited)	11,000	54,954	(148)	20,605	281,324	367,735

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	18,034	1,957
INVESTING ACTIVITIES		
Interest income on debt instruments at FVTOCI	29	29
Bank interest income	43	11
Prepayment for a land use right	(24,984)	–
Purchase of property, plant and equipment	(1,300)	(1,224)
Deposits for acquisition of property, plant and equipment	(689)	(15,216)
Proceeds from disposal of financial assets at fair value through profit or loss	–	13
Placement of pledged bank deposits	(6,091)	(1,714)
NET CASH USED IN INVESTING ACTIVITIES	(32,992)	(18,101)
FINANCING ACTIVITIES		
New bank borrowings raised	108,097	66,834
Repayment of bank borrowings	(87,497)	(58,575)
Interest paid	(2,870)	(2,057)
Repayment of lease liabilities	(1,498)	(1,469)
NET CASH FROM FINANCING ACTIVITIES	16,232	4,733
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,274	(11,411)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	137,801	108,383
CASH AND CASH EQUIVALENTS AT 30 JUNE	139,075	96,972
Represented by:		
Bank balances and cash	139,075	98,117
Bank overdrafts	–	(1,145)
	139,075	96,972

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 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 (Act 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 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 six months ended 30 June 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		Six months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sale of candle products				
Daily-use candles	27,409	42,857	41,517	73,565
Scented candles	131,969	136,019	250,175	227,955
Decorative candles	2,963	4,122	4,549	4,363
Others (including diffusers)	21,682	16,511	43,064	33,159
Total	184,023	199,509	339,305	339,042
Timing of revenue recognition				
At a point in time	184,023	199,509	339,305	339,042

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' specified 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		Six months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
United States of America	173,842	191,319	298,572	323,404
United Kingdom	7,904	5,345	37,168	10,304
Others	2,277	2,845	3,565	5,334
Total	184,023	199,509	339,305	339,042

The information about the Group’s non-current assets (excluded financial assets and deferred tax assets) is presented based on the geographical locations of the assets.

Non-current assets

	30.6.2022	31.12.2021
	HK\$’000	HK\$’000
	(unaudited)	(audited)
Hong Kong	2,408	4,090
Vietnam	110,290	90,008
Total	112,698	94,098

4. OTHER INCOME

	Three months ended		Six months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Bank interest income	39	8	43	11
Interest income on debt instruments at FVTOCI	29	29	29	29
Sundry income	208	53	261	69
Others	283	388	574	589
	<u>559</u>	<u>478</u>	<u>907</u>	<u>698</u>

5. OTHER GAINS AND LOSSES

	Three months ended		Six months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net foreign exchange gain (losses)	403	(164)	448	(289)
Fair value gain on financial assets at fair value through profit or loss	–	1	–	2
Write-off of trade receivables	–	(101)	–	(101)
Reversal of impairment loss on trade receivables	1,375	1,279	298	630
	<u>1,778</u>	<u>1,015</u>	<u>746</u>	<u>242</u>

6. FINANCE COSTS

	Three months ended		Six months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest on bank borrowings	1,635	936	2,870	2,057
Interest on lease liabilities	30	68	69	115
	<u>1,665</u>	<u>1,004</u>	<u>2,939</u>	<u>2,172</u>

7. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
	<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	2,900	5,915	6,400	9,053
– Vietnam Corporate Income Tax	1,610	1,225	1,663	1,852
	<u>4,510</u>	<u>7,140</u>	<u>8,063</u>	<u>10,905</u>
Deferred taxation:				
Current period	<u>(51)</u>	<u>(93)</u>	<u>265</u>	<u>(164)</u>
	<u>4,459</u>	<u>7,047</u>	<u>8,328</u>	<u>10,741</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 six months ended 30 June 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 six months ended 30 June 2022 and 2021.

8. PROFIT BEFORE INCOME TAX EXPENSE

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

	Three months ended		Six months ended	
	30.6.2022 HK\$'000 (unaudited)	30.6.2021 HK\$'000 (unaudited)	30.6.2022 HK\$'000 (unaudited)	30.6.2021 HK\$'000 (unaudited)
Auditor's remuneration	250	225	500	450
Cost of inventories recognised as an expense	130,765	131,810	241,988	223,801
Allowance of inventories (included in cost of sales)	647	130	155	361
Write-off of trade receivables	–	101	–	101
Donations	–	62	28	90
Depreciation of right-of-use assets	904	901	1,808	1,811
Less: capitalised in inventories	(186)	(186)	(373)	(373)
	<u>718</u>	<u>715</u>	<u>1,435</u>	<u>1,438</u>
Depreciation of property, plant and equipment	1,783	803	3,441	1,576
Less: capitalised in inventories	(1,439)	(584)	(2,596)	(1,153)
	<u>344</u>	<u>219</u>	<u>845</u>	<u>423</u>
Employee benefit expense (excluding directors' remuneration):				
– Salaries and allowances	13,661	20,240	27,285	34,809
– Discretionary bonus	1,141	1,060	2,295	2,124
– Retirement benefit scheme contribution	2,461	2,782	5,043	5,403
Total staff costs	17,263	24,082	34,623	42,336
Less: capitalised in inventories	(11,070)	(18,206)	(21,937)	(30,692)
	<u>6,193</u>	<u>5,876</u>	<u>12,686</u>	<u>11,644</u>

9. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the six months ended 30 June 2022 and 2021, disclosed pursuant to the applicable GEM Listing Rules and Hong Kong Companies Ordinance (Cap. 622), is as follows:

	Three months ended		Six months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Fees	114	180	228	360
Salaries and other allowances	1,800	1,800	3,600	3,600
Retirement benefits scheme contributions	9	12	18	23
Other benefits	516	567	999	1,298
Discretionary bonus	10,000	6,000	10,000	11,000
Total	12,439	8,559	14,845	16,281

10. DIVIDENDS

No dividends were paid, declared or proposed for the six months ended 30 June 2022 and 2021.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Three months ended		Six months ended	
	30.6.2022	30.6.2021	30.6.2022	30.6.2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Earnings				
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	19,439	33,330	37,456	51,365

	Three months ended		Six months ended	
	30.6.2022 (unaudited)	30.6.2021 (unaudited)	30.6.2022 (unaudited)	30.6.2021 (unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,100,000,000</u>	<u>1,100,000,000</u>	<u>1,100,000,000</u>	<u>1,100,000,000</u>

No diluted earnings per share for the both periods was presented as there were no potential ordinary shares in issue during both periods.

12. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment amounting to HK\$1,300,000 (for the six months ended 30 June 2021: HK\$1,075,000) for the purpose of the Group's operation.

13. INVENTORIES

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Raw materials	88,567	71,278
Work in progress	3,941	5,883
Finished goods	31,165	46,336
Goods in transit	<u>11,830</u>	<u>17,362</u>
	135,503	140,859
Less: Allowance for inventories	<u>(1,883)</u>	<u>(1,881)</u>
	<u>133,620</u>	<u>138,978</u>

14. TRADE AND OTHER RECEIVABLES

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Trade receivables, gross	97,932	90,486
Less: Allowance for credit losses	(3,791)	(4,089)
Trade receivables, net	94,141	86,397
Deposits and prepayments	12,015	3,076
Total	106,156	89,473

As at 30 June 2022 and 31 December 2021, trade receivables from contracts with customers amounted to HK\$94,141,000 and HK\$86,397,000, respectively.

The Group allows credit period ranging from 30 to 120 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date at the end of the reporting period:

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
0-30 days	52,576	54,720
31-60 days	25,227	19,623
61-90 days	2,680	2,959
91-180 days	7,970	5,659
Over 180 days	5,688	3,436
	94,141	86,397

The ageing analysis of trade receivables, net of loss allowance for credit losses, as of the end of reporting period, based on past due dates, is as follows:

	30.6.2022	31.12.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Past due over:		
Neither past due nor impaired	78,088	68,649
1-30 days	2,394	12,408
31-60 days	4,879	542
61-90 days	3,092	1,362
91-180 days	1,259	2,601
Over 180 days	4,429	835
	94,141	86,397

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances and the balance are non-interest-bearing.

15. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits of the Group are pledged to banks for securing bank borrowings (Note 18). The bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

16. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables based on the invoice at the end of the period.

	30.6.2022	31.12.2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
Trade payables:		
1–30 days	14,156	31,518
31–60 days	12,908	13,593
61–90 days	258	584
91–180 days	–	5
Over 180 days	–	10
	<hr/>	<hr/>
	27,322	45,710
Other payables	4,765	7,270
Accrued expenses	24,021	29,693
	<hr/>	<hr/>
	56,108	82,673
	<hr/> <hr/>	<hr/> <hr/>

The credit period on purchases of goods is 0 to 90 days.

17. CONTRACT LIABILITIES

The amount represented the trade deposits received from customers, which will be recognized as the Group's revenue when the control of the goods transferred to customers.

18. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to HK\$108,097,000 (31 December 2021: HK\$199,375,000). The bank loans carry interest at variable market rates of 2.57% to 9.3% per annum. The proceeds were used to finance the daily operation of the Group.

19. SHARE CAPITAL

The Company

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised		
At 31 December 2021 and 30 June 2022	5,000,000,000	50,000
Issued and fully paid		
At 31 December 2021 and 30 June 2022	1,100,000,000	11,000

20. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Directors.

Key management personnel remuneration was as follow:

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Salaries, allowance and bonus	14,827	16,258
Retirement benefits	18	23
	<u>14,845</u>	<u>16,281</u>

21. FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS THAT ARE MEASURED AT FAIR VALUE ON A RECURRING BASIS

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used) as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs and relationship of unobservable inputs to fair value
	30 June 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>			
Debt instruments at FVTOCI	974	1,152	Level 3	Based on the reference prices of respective unlisted bonds provided by financial institution which is determined by using discounted cash flow with discount rate reflecting the credit risk of the issuers.	A slight increase in discount rate used would result in significant decrease in fair value measurement to the unlisted bonds investments and vice versa.

Note: There were no transfers between level 1, level 2 and level 3 during the six months ended 30 June 2022.

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 six months ended 30 June 2022 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 six months ended 30 June 2022, which the sales of scented candles increased by approximately HK\$22.2 million or 9.7% as compared with the same period in 2021. It reflects the trend of preference for candle products with scent and coloured additives is increasing 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 our major customer since 2020, 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.

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 six months ended 30 June 2022 remains stable at approximately HK\$339.3 million as compared with the same period in 2021. The scented candles remain the best-selling product of the Group which the sales of scented candles increased by approximately HK\$22.2 million or 9.7% as compared with the same period in 2021.

Gross profit and gross profit margin

Gross profit for the six months ended 30 June 2022 amounted to approximately HK\$97.3 million, representing a decrease of approximately HK\$17.9 million or 15.5% as compared with that of approximately HK\$115.2 million for the same period in 2021.

The gross profit margin decreased to approximately 28.7% for the six months ended 30 June 2022 as compared with that of 34.0% 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 for the six months ended 30 June 2022.

Other gains and losses

Other gain for the six months ended 30 June 2022 amounted to approximately HK\$746,000, representing an increase of approximately HK\$504,000 or 208.3% as compared with other gain of approximately HK\$242,000 for the same period in 2021. The increase was mainly due to the reversal of allowance of trade receivables for approximately HK\$298,000.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2022 amounted to approximately HK\$13.7 million, representing a decrease of approximately HK\$3.3 million or 19.4% as compared with that of approximately HK\$17.0 million for the same period in 2021.

The decrease was mainly due to the transportation and declarations expenses and marketing and promotion expenses dropped for approximately HK\$2.1 million and approximately HK\$1.2 million respectively.

Administrative expenses

Administrative expenses for the six months ended 30 June 2022 amounted to approximately HK\$36.6 million, representing an increase of approximately HK\$1.7 million or 4.9% as compared with that of approximately HK\$34.9 million for the same period in 2021. The increase in administrative expenses was mainly due to the increase in office expenses for HK\$530,000 and increase in legal and professional expenses of approximately HK\$647,000.

Finance costs

Finance costs for the six months ended 30 June 2022 amounted to approximately HK\$2.9 million, representing an increase of approximately HK\$0.7 million or 31.8% as compared to that of approximately HK\$2.2 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 incurred net profit of approximately HK\$37.5 million for the period ended 30 June 2022, representing a decrease of approximately HK\$13.9 million or 27.0% as compared with net profit of approximately HK\$51.4 million for the same period in 2021.

Such decrease was mainly due to (i) decrease in gross profit of approximately HK\$17.9 million; and (ii) increase in administrative expenses of approximately HK\$1.7 million which partially were offset by (a) decrease in selling expenses of approximately HK\$3.3 million; and (b) decrease in tax expenses of approximately HK\$2.4 million.

Liquidity and Financial Resources

As at 30 June 2022, the Group had total assets of approximately HK\$519.3 million (31 December 2021: approximately HK\$483.0 million), which is financed by total liabilities of approximately HK\$151.5 million (31 December 2021: approximately HK\$152.5 million) and shareholders' equity (comprising share capital and reserves) of approximately HK\$367.7 million (31 December 2021: approximately HK\$330.5 million).

The total interest-bearing borrowings of the Group as at 30 June 2022 were approximately HK\$82.6 million (31 December 2021: approximately HK\$62.6 million), and current ratio as at 30 June 2022 was approximately 3.0 times (31 December 2021: approximately 2.7 times) which remains stable.

The Group's gearing ratio, which is calculated by dividing total debt by total equity as at the end of each of the reporting period, increased from approximately 20.0% as at 31 December 2021 to approximately 23.0% as at 30 June 2022, primarily due to the increase in bank borrowings.

As at 30 June 2022 and 31 December 2021, the Group has unutilised banking facilities of approximately HK\$40.6 million and HK\$46.0 million respectively.

The Directors are of the view that as at the date of this announcement, the Group's financial resources are sufficient to support its business and operations.

Treasury Policy

The Group adopts a prudent financial management approach towards its treasury policy and thus maintained a healthy liquidity position throughout the reporting period. The management of the Group regularly reviews the recoverable amount of trade receivables by performing ongoing credit assessments and monitoring prompt recovery and if necessary to make adequate impairment losses for irrecoverable amounts. In order to achieve better cost control and minimize the cost of funds, the Group's treasury activities are centralized and cash is generally deposited with leading licensed banks in Hong Kong and denominated in Hong Kong dollars.

Capital Structure

The Shares were successfully listed on GEM on 19 July 2018. There has been no change in the Company's capital structure since 19 July 2018. The capital structure of the Group comprises of issued share capital and reserves. The Directors review the Group's capital structure regularly.

As at 30 June 2022, the Company's issued share capital was HK\$11,000,000 and the number of its issued ordinary shares was 1,100,000,000 of HK\$0.01 each.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the prospectus of the Company dated 29 June 2018 (the “**Prospectus**”) and this announcement, the Group did not have any plans for material investments or capital assets as of 30 June 2022.

Pledge of Assets

As at 30 June 2022 and 31 December 2021, the Group had corporate guarantee and pledged certain assets including property, plant and equipment, right-of-use assets, debt instruments of fair value through other comprehensive income, pledged bank deposits with carrying amounts of HK\$81.2 million and HK\$82.6 million respectively to secure the Group’s bank loans.

Foreign Currency Exposure

The majority transactions of expenditure and bank borrowings of the Group are denominated in foreign currencies which are different from the functional currency of the Group, i.e. US dollar. The Group is mainly exposed to foreign exchange risk arising from transactions that are denominated in Hong Kong dollar and Vietnamese dong. During the six months ended 30 June 2022, the Group did not have any hedging arrangements. The Group currently does not have a foreign currency hedging policy. However, the management of the Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arises. The management of the Group considers the exposure to the foreign exchange risk fluctuation for the Group is not material.

Capital Commitments

As at 30 June 2022, the Group had capital commitments of approximately HK\$8.1 million in respects of property, plant and equipment (30 June 2021: HK\$10.4 million).

Contingent Liabilities

As at 30 June 2022, the Group did not have any contingent liabilities (30 June 2021: Nil).

Employees and Remuneration Policies

As at 30 June 2022, the Group employed approximately 1,300 (30 June 2021: approximately 2,100) staff (including executive Directors). The Group determines the employees’ remuneration based on factors such as qualification, duty, contributions and years of experience. In addition, the Group provides comprehensive training programs to its employees or sponsors the employees to attend various job-related training courses.

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\$31.90 million).

As at 30 June 2022, total amount of VND74,548,800,000 (equivalent to approximately HK\$25.0 million) was 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 six months ended 30 June 2022.

EVENT AFTER THE END OF REPORTING PERIOD

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

DIVIDEND

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

USE OF PROCEEDS

The net proceeds received by the Group from the Listing after deducting the relevant one-off and non-recurring listing expenses amounted to approximately HK\$44.5 million (based on the public offering price of HK\$0.295 per Share), which was below the estimated net proceeds of approximately HK\$50.5 million (estimated on the assumption that the public offering price would be HK\$0.32 per Share), the midpoint of the range stated in the Prospectus.

The following sets forth a summary of the allocation of the net proceeds and its utilisation as at 30 June 2022, as compared to that envisaged in the Prospectus.

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as stated in the Prospectus with the Group's actual business progress for the period from the date of Listing (i.e. 19 July 2018) to 30 June 2022 is set out below:

	Approximate amount of net proceeds <i>HK\$ million</i>	Approximate actual utilised as at 30 June 2022 <i>HK\$ million</i>	Unused amount of net proceeds as at 30 June 2022 <i>HK\$ million</i>
Upgrade existing production facilities	6.2	–	6.2
Acquisition of new production facilities	18.1	18.1	–
Purchase of new machinery	9.2	9.2	–
Installation of ERP systems	2.0	0.4	1.6
Partial repayment of bank loans	6.9	6.9	–
General working capital	2.1	2.1	–
	<u>44.5</u>	<u>36.7</u>	<u>7.8</u>

Upgrade existing production facilities

As at 30 June 2022, the management of the Group is still considering the renovation of existing production facilities together with the planning for the construction of warehouse for the new land acquired in 2022.

Acquisition of new production facility

In 2019, the Group completed the acquisition of the new land for new production facility. In 2021, the Group's building construction of new production facility was completed and fully utilised approximately HK\$18.1 million from part of net proceeds allocated for the new production facility.

Acquisition of new machinery

As at 30 June 2022, the Group paid approximately HK\$9.2 million for the acquisition of machineries for the expected increasing purchase orders from its customers in future.

Installation of ERP systems

As at 30 June 2022, the Group paid approximately HK\$0.4 million for the deposit and related expenses of the ERP systems for production and warehouse management and customer relationship management. The Group expects the implementation of such ERP systems in 2022.

Partial repayment of bank loans

The Group repaid the balance of bank loans in Hong Kong and Vietnam of approximately HK\$2.9 million and repaid overdraft in Hong Kong amounting to approximately HK\$4.0 million.

Except as explained above, the Group intends to continue to apply the net proceeds received from the Listing in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

All the unutilised balances of net proceeds have been placed in licensed banks for short-term deposits.

The Directors are not aware of any material change to the planned use of proceeds as at the date of this announcement.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings (the “**Required Standard of Dealing**”) 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 six months ended 30 June 2022. No incident of non-compliance was noted by the Company for the six months ended 30 June 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 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 six months ended 30 June 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 six months ended 30 June 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.

REVIEW OF THIS ANNOUNCEMENT

This announcement for the six months ended 30 June 2022 has not been audited, but has been reviewed by the Audit Committee.

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, 5 August 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.