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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)

MAJOR TRANSACTION IN RELATION TO THE CONSTRUCTION CONTRACT AND THE SERVICE AGREEMENT FOR THE CONSTRUCTION OF A NEW FACTORY

Reference is made to the announcement of the Company dated 9 March 2022 in relation to the acquisition of land use rights of the Land by Fleming International, an indirect wholly-owned subsidiary of the Company (the “**Announcement**”).

THE CONSTRUCTION CONTRACT AND THE SERVICE AGREEMENT

The Board is pleased to announce that on 6 July 2023 (after trading hours of the Stock Exchange), Fleming International entered into (i) the Construction Contract with the Contractor in relation to the construction of a new factory on the Land at the Contract Price of VND135,000,000,000 (equivalent to approximately HK\$44.9 million); and (ii) the Service Agreement with the Service Provider for the provision of project management and construction management services in respect of the Works to be carried out by the Contractor on the Land at the Service Fee of VND3,550,500,000 (equivalent to approximately HK\$1.2 million).

The Directors consider that the terms of the Construction Contract and the Service Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Contractor, the Service Provider and their respective ultimate beneficial owners are Independent Third Parties.

The Contract Price will be financed partly by a loan facility from a bank in Vietnam and partly by the general working capital of the Group whereas the Service Fee will be financed solely by the general working capital of the Group.

IMPLICATIONS UNDER THE GEM LISTING RULES

In respect of the Construction Contract, as one or more of the applicable percentage ratios calculated pursuant to the GEM Listing Rules is 25% or more but less than 100%, the Construction Contract and the transactions contemplated thereunder constitute a major transaction on the part of the Company and are therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

In respect of the Service Agreement, as none of the applicable percentage ratios calculated pursuant to the GEM Listing Rules exceeds 5%, the Service Agreement and the transactions contemplated thereunder do not constitute a discloseable transaction on the part of the Company and are not subject to the reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Construction Contract, the Service Agreement and the transactions contemplated thereunder. The Company has obtained written approvals from the controlling shareholders of the Company, namely (i) Mr. Wong Wai Chit, the chairman and an executive Director of the Company; (ii) Mr. Wong Man Chit, the chief executive officer and an executive Director of the Company; and (iii) AVW International Limited, a company controlled by Mr. Wong Wai Chit and Mr. Wong Man Chit, which is interested in 643,500,000 Shares (representing approximately 58.5% of the issued Shares as at the date of this announcement), in respect of the Construction Contract, the Service Agreement and the transactions contemplated thereunder, in lieu of holding a general meeting pursuant to Rule 19.44 of the GEM Listing Rules.

A circular containing, among other things, (i) further details of the Construction Contract and the Service Agreement; and (ii) financial information of the Group will be despatched to the Shareholders on or before 27 July 2023.

INTRODUCTION

As disclosed in the Announcement, Fleming International acquired the land use rights of the Land for a new warehouse to be constructed by the Group.

The Board is pleased to announce that on 6 July 2023 (after trading hours of the Stock Exchange), Fleming International, an indirect wholly-owned subsidiary of the Company, entered into (i) the Construction Contract with the Contractor in relation to the construction of a new factory on the Land at the Contract Price; and (ii) the Service Agreement with the Service Provider for the provision of project management and construction management services in respect of the Works to be carried out by the Contractor on the Land at the Service Fee.

PRINCIPAL TERMS OF THE CONSTRUCTION CONTRACT

Date: 6 July 2023 (after trading hours of the Stock Exchange).

Parties: Fleming International (as principal); and
the Contractor (as contractor).

Subject matter: The Contractor shall be responsible for the Works in relation to the construction of the new factory on the Land which consists of a warehouse, a production floor, a two-story office, a two-story canteen, a parking lot (including car parking and bike parking), and ancillary buildings and roads. The Contractor shall be primarily responsible for:

- (a) the review of the nominated design, manufacturing, engineering, construction, installation, testing, electrical works, fire-fighting system and commissioning, completion and rectification of defects in maintenance and warranty of the Works;
- (b) the supply of all personnel, equipment, transport, accessories, materials and plants for the execution of the Works, all other work and ancillary services contingently required, whether expressly stated or not, for the completion of the Works; and
- (c) obtaining applicable permits and licences for the Works under the applicable laws of Vietnam.

Contract Price and payment terms: The total Contract Price is principally a lump sum for the execution and completion of the Construction Contract, which shall be VND135,000,000,000 (equivalent to approximately HK\$44.9 million).

The Contract Price shall be paid by Fleming International to the Contractor via bank transfer in the following manner:

- (a) 15% of the Contract Price as the advance payment payable to the Contractor within 14 days from Fleming International's receipt of the original payment certificate attached with the original performance security, the original advance payment security and the original construction permit duly issued by the relevant authority; and

(b) 85% of the Contract Price payable by way of:

- interim payments as specified in the relevant interim payment certificates, each payable within 28 days after Fleming International receives the original of the relevant interim payment certificate issued by the Engineer in respect of any part of the interim payment applied by the Contractor; and
- final payment as specified in the final payment certificate, payable within 28 days after the issuance date of the taking-over certificate for the Works and Fleming International receives the original of the final payment certificate issued by the Engineer, provided that the Contractor has provided Fleming International with the original warranty bond in an amount equal to 5% of the Contract Price, issued by a commercial bank duly licensed for operation in Vietnam and be in a form approved by Fleming International.

The Contract Price may be subject to adjustments to cater for any variation orders to be approved by Fleming International in accordance with the terms of the Construction Contract.

Performance security:

The Contractor shall, within 14 days from the execution of the Construction Contract but in any event not later than the commencement date, deliver to Fleming International the performance security in an amount equal to 15% of the Contract Price, and send a copy thereof to the Engineer. The performance security must be issued by a commercial bank duly licensed for operation in Vietnam and be in a form approved by Fleming International in advance. Such security will act as a guarantee for the Contractor's due performance and observance of the Construction Contract.

The Contractor shall ensure that the performance security is valid and enforceable until the Contractor has been issued the taking-over certificate and until 30 days after the date of issuance of the taking-over certificate to the Contractor.

Warranty bond:

The Contractor shall, at its own cost, obtain a warranty bond equivalent to 5% of the Contract Price to guarantee the execution of all Works and the remedy of any defects or damages that may be notified by Fleming International on or before the expiry date of the defects notification period. Such period shall be 24 calendar months from the date of issuance of the taking-over certificate.

Conditions precedent:

The Construction Contract is conditional upon:

- (a) the compliance with all necessary approval and other requirements of the Stock Exchange; and
- (b) the Company’s compliance with the GEM Listing Rules (including without limitation the Company obtaining the Shareholders’ approval of the Construction Contract and the transactions contemplated thereunder).

In the event that any of the conditions set out above has not been fulfilled within 60 days after the execution of the Construction Contract (or such other date as may be mutually agreed in writing between Fleming International and the Contractor):

- (a) the Contractor shall forthwith refund all deposits and prepayments to Fleming International upon its request, except for any reasonable expenses in relation to the execution of the Construction Contract paid by the Contractor provided that such expenses must be evidenced by valid invoices and must be reviewed and agreed in writing by Fleming International and the Contractor;
- (b) Fleming International will return the performance security to the Contractor, if it has been provided to Fleming International by the Contractor; and
- (c) the Construction Contract shall whereupon cease to have any effect save in respect of claims arising out of any antecedent breach of the Construction Contract.

Expected commencement date:

On or around 25 July 2023.

Construction period: The Contractor is expected to complete the Works within 240 calendar days (including weekend and holidays) from the commencement date.

Defects and rectification: Any item of works, plants and/or materials which does not comply with the Construction Contract shall be made good, remedied, or reconstrued before the application of the taking-over certificate.

The Contractor shall complete any work outstanding on the date stated in the taking-over certificate as set out in the schedule to the taking-over certificate; and shall execute all work required to remedy defects or damages, as notified by Fleming International on or before the expiry date of the relevant defects notification period.

PRINCIPAL TERMS OF THE SERVICE AGREEMENT

Date: 6 July 2023 (after trading hours of the Stock Exchange).

Parties: Fleming International (as principal); and
the Service Provider (as consultant).

Scope of services: The Service Provider shall be responsible for the provision of, among others, the following services (the “Services”):

- (a) performing the functions and roles of the Engineer for the execution of the Construction Contract as stated therein;
- (b) general project management for the planning, supervision, costing, progress, reporting and documents of the Works performed by the Contractor and sub-contractor(s) (if any);
- (c) construction management for health safety and environment management, construction procedure and quality management according to approved design documentation;
- (d) management of occupational health safety and environment related issues, including procedures, equipment, safety requirements, manpower, reports, plans, training, and permits;

- (e) monitoring and coordinating the general construction program and the construction processes;
- (f) performing regular progress measurements and reports;
- (g) reviewing the safety plan and inspecting the safety organisation of the Contractor and sub-contractor(s) (if any);
- (h) inspection, testing and certification of construction works;
- (i) performing hazard assessments and monitoring the prevention action program;
- (j) programming/scheduling;
- (k) reviewing, monitoring and coordinating the commissioning plans, re-testing, acceptance, contractor payment or procedures of the Contractor; and
- (l) providing additional services as instructed by Fleming International in writing.

Service Fee and payment terms:

Subject to adjustments to cater for variation orders to be approved by Fleming International, the total Service Fee shall be VND3,550,500,000 (equivalent to approximately HK\$1.2 million) which shall be paid by Fleming International in the following manner:

- (a) 30% of the Service Fee shall be paid within seven days from the date of signing of the Service Agreement; and
- (b) 70% of the Service Fee shall be paid in instalment as monthly progress payments proportional to the construction progress within 14 days from the date of payment request submitted by the Service Provider according to the agreed schedule.

Conditions precedent:

The Service Agreement is conditional upon:

- (a) the compliance with all necessary approval and other requirements of the Stock Exchange;
- (b) the Company’s compliance with the GEM Listing Rules (including without limitation the Company obtaining the Shareholders’ approval of the Service Agreement and the transactions contemplated thereunder); and
- (c) the Construction Contract becoming unconditional.

In the event that any of the conditions set out above shall not have been fulfilled:

- (a) the Service Provider shall forthwith refund all prepayments (if any) to Fleming International upon request, except for any reasonable expenses in relation to the execution of the Service Agreement paid by the Service Provider provided that such expenses must be evidenced by valid invoices and must be reviewed and agreed in writing by Fleming International and the Service Provider; and
- (b) the Service Agreement shall whereupon cease to have any effect upon receipt of notice in writing from Fleming International save in respect of claims arising out of any antecedent breach of the Service Agreement.

Expected commencement date:

On or around 25 July 2023.

Term:

The Services are expected to be carried out for a period of 240 consecutive calendar days from the commencement date of the Construction Contract and with any extension period of such period (if any) upon a written agreement entered into between Fleming International and the Service Provider.

Basis of determination of the Contract Price and the Service Fee

The Contract Price was arrived at from a tender process whereby invitation to bid for the construction of the new factory on the Land was solicited by the Group and the tender submitted by the Contractor was considered the most appropriate after taking into account the tender price and payment terms, as well as the Contractor's background, capacity, qualifications and experiences. Accordingly, the Directors consider that the Contract Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Service Fee was determined after arm's length negotiations between Fleming International and the Service Provider on normal commercial terms with reference to the spectrum and complexity of the Services. The Directors believe that the Service Fee is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Design Solutions Agreement and the Design Fee

Prior to the commencement of the tendering process in relation to the construction of the new factory on the Land, Fleming International entered into the Design Solutions Agreement with the Contractor, as designer, on 5 January 2023 for the provision of design solutions in relation to the new factory which comprises warehouse, production floor, office, canteen and parking spaces. The Contractor was primarily responsible for developing various diagrams and drawings for the construction of the factory building at the Design Fee of VND944,255,500 (equivalent to approximately HK\$0.3 million). The Design Solutions Agreement was completed on 3 May 2023.

INFORMATION OF THE CONTRACTOR

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Contractor and its ultimate beneficial owner(s) are Independent Third Parties. The Contractor is a company incorporated in Vietnam and principally engaged in contractor works, design and building works. The Contractor was selected through a tender process and was considered the most appropriate after taking into account the tender price and payment terms, as well as the Contractor's background, capacity, qualifications and experiences.

INFORMATION OF THE SERVICE PROVIDER

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Service Provider and its ultimate beneficial owner(s) are Independent Third Parties. The Service Provider is a company incorporated in Vietnam and principally engaged in, among others, project management, construction management, buildings and building engineering, and engineering consultancy.

INFORMATION OF FLEMING INTERNATIONAL AND THE COMPANY

Fleming International is an indirect wholly-owned subsidiary of the Company and principally engages in design, manufacture and trading of candle products in Vietnam.

The Group principally engages in the manufacturing and sale of candle products with the 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 of its customers.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONSTRUCTION CONTRACT AND THE SERVICE AGREEMENT

As disclosed in the Announcement, in the course of the Group's production, finished products are packaged and stored at the storage space of the Group's production facility and its warehouses before delivery. As of the date of the Announcement, the warehouse at the Group's factory and other external warehouses were at their near full occupancy storing the Group's raw materials and finished goods. In addition, the then lease terms of the Group's external warehouses were typically short-term, ranging from 6 months to 1 year and the lease offers received by the Group often represented an increase in monthly rent. Moreover, the Group experienced operational inconvenience when using the third parties' warehouses as the Group was required to go through various procedures with the lessors for daily logistics arrangements. Accordingly, the Group decided to acquire the Land for building its own storage space.

As of the date of this announcement, the Board has reconsidered the Group's initial plan to utilise the Land solely for storage facilities. After careful evaluation, the Board believes it would be more advantageous for the Group to build a new factory on the Land, which would encompass both production facilities and warehouse(s) based on the following reasons:

1. the Group has secured new businesses from sizeable and reputable customers with a global presence and it anticipates that its candle product business will expand rapidly if stable business relationships with such customers can be maintained;
2. by having the factory and warehouse in close proximity, the Company can significantly save both time and costs associated with transportation and logistics. This streamlined process allows for more efficient management of the production and storage, ultimately leading to improved overall operations and increased competitiveness of the Group in the market;
3. In June 2023, approaching the peak season of production, the Group's utilisation of production capacity of scented candles which is the major products of the Group had reached approximately 80% which demonstrated that the Group's existing production facilities are insufficient to support the anticipated growth and development of the Group's business;

4. given that approximately 44.2% of the gross floor area of the new factory building is expected to be utilised as storage facilities, the benefits of the original plan mentioned in the Announcement can still be achieved. These benefits include but are not limited to (i) saving on rental expenses incurred from renting external storage spaces; (ii) avoiding operational inconvenience; and (iii) optimising the use of self-owned warehouse by having the discretion to install racks and other structures to increase storage space and to provide for other operational uses;
5. the Group's major external warehouses in Vietnam located in an industrial park, which may be subject to a conversion plan introduced by the local government for its transformation and development into a commercial and service area; and
6. after the construction of the new factory (which consists of both production and storage facilities), the Group intends to gradually terminate or allow the leases of the existing external warehouses to expire in an orderly manner, thereby reducing the Group's reliance on external warehouses to enhance cost management.

Accordingly, to meet the future demands for the Group's candle products, increasing production capacity and accelerating progress and development by adding manufacturing facilities and a warehouse would lay a solid foundation for the Company's rapid growth. The Directors consider that the terms of the Construction Contract and the Service Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

It is expected that the Contract Price will be financed as to (i) approximately HK\$22.3 million, representing approximately 49.6% of the Contract Price, by a loan facility from a Vietnam bank; and (ii) approximately HK\$22.6 million, representing approximately 50.4% of the Contract Price, from the general working capital of the Group. It is also expected that the Service Fee, being approximately HK\$1.2 million will be financed solely by the general working capital of the Group.

IMPLICATIONS UNDER THE GEM LISTING RULES

In respect of the Construction Contract, as one or more of the applicable percentage ratios calculated pursuant to the GEM Listing Rules is 25% or more but less than 100%, the Construction Contract and the transactions contemplated thereunder constitute a major transaction on the part of the Company and are therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

In respect of the Service Agreement, as none of the applicable percentage ratios calculated pursuant to the GEM Listing Rules exceeds 5%, the Service Agreement and the transactions contemplated thereunder do not constitute a discloseable transaction on the part of the Company and are not subject to the reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

In respect of the Design Solutions Agreement, as none of the applicable percentage ratios calculated pursuant to the GEM Listing Rules exceeded 5% according to the Company's evaluation on 5 January 2023, the Design Solutions Agreement and the transactions contemplated thereunder did not constitute a discloseable transaction on the part of the Company and was not subject to the reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

Rules 19.22 and 19.23 of the GEM Listing Rules provide that the Stock Exchange may require listed issuers to aggregate a series of transactions and treat them as if they were one transaction if they are all completed within a 12-month period or are otherwise related. As a matter of illustration, even if the Construction Contract, the Service Agreement and the Design Solutions Agreement are treated as if they were one transaction, none of the applicable percentage ratios calculated pursuant to the GEM Listing Rules would have exceeded 100%. Accordingly, they would still constitute a major transaction on the part of the Company and are therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules. Even though the Company is of the view that the Construction Contract and the Service Agreement shall not be regarded as one transaction and the applicable percentage ratios thereof shall not be aggregated, the Company considers it a prudent approach and in the best interests of the Shareholders to disclose the details of and seek the Shareholders' approval on both the Construction Contract and the Service Agreement in this particular occasion.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Construction Contract, the Service Agreement and the transactions contemplated thereunder. The Company has obtained written approvals from the controlling shareholders of the Company, namely (i) Mr. Wong Wai Chit, the chairman and an executive Director of the Company; (ii) Mr. Wong Man Chit, the chief executive officer and an executive Director of the Company; and (iii) AVW International Limited, a company controlled by Mr. Wong Wai Chit and Mr. Wong Man Chit, which is interested in 643,500,000 Shares (representing approximately 58.5% of the issued Shares as at the date of this announcement), in respect of the Construction Contract, the Service Agreement and the transactions contemplated thereunder, in lieu of holding a general meeting pursuant to Rule 19.44 of the GEM Listing Rules.

A circular containing, among other things, (i) further details of the Construction Contract and the Service Agreement; and (ii) financial information of the Group will be despatched to the Shareholders on or before 27 July 2023.

DEFINITIONS

In this announcement, the following expressions will have the following meanings unless the context requires otherwise:

“Board”	The board of Directors
“Company”	Hyfusin Group Holdings Limited (凱富善集團控股有限公司) (stock code: 8512), a company incorporated in the Cayman Islands with limited liability, with the Shares listed on GEM of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Construction Contract”	the agreement dated 6 July 2023 entered into between Fleming International and the Contractor in respect of the Works of the new factory on the Land
“Contract Price”	the consideration of the Construction Contract being VND135,000,000,000 (equivalent to approximately HK\$44.9 million), subject to adjustments to cater for variation orders to be approved by Fleming International in accordance with the terms of the Construction Contract
“Contractor”	Solutions Construction Company Limited, a company incorporated in Vietnam, an Independent Third Party
“controlling shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Design Fee”	the consideration of the Design Solutions Agreement being VND944,255,500 (equivalent to approximately HK\$0.3 million)
“Design Solutions Agreement”	the agreement dated 5 January 2023 entered into between Fleming International and the Contractor (as designer) for the provision of design solutions in respect of the new factory before the tendering process
“Director(s)”	the directors of the Company
“Fleming International”	Fleming International Vietnam Limited, a company established under Vietnamese laws with limited liability and an indirectly wholly-owned subsidiary of the Company

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, is/are not connected with the Company and its connected persons (as defined in the GEM Listing Rules)
“Land”	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.
“Service Agreement”	the agreement dated 6 July 2023 entered into between Fleming International and the Service Provider for the provision of project management and construction management services in respect of the Works to be carried out by the Contractor on the Land
“Service Fee”	the consideration of the Service Agreement being VND3,550,500,000 (equivalent to approximately HK\$1.2 million)
“Service Provider” or “Engineer”	IntES Vietnam Company Limited, a company incorporated in Vietnam, an Independent Third Party
“Share(s)”	the ordinary share(s) of par value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VND”	Vietnamese Dong, the lawful currency of Vietnam

“Works” all the works, services, performances that the Construction Contract requires the Contractor to perform, provide and deliver including but not limited to construction of the new factory and warehouse, including the civil works, mechanical works, electrical works and the firefighting system, and other similar and incidental obligations of the Contractor under the Construction Contract

“%” per cent

For illustration purposes, amounts in VND in this announcement have been translated into HK\$ based on the exchange rate of VND3,006.51 = HK\$1.00. Such conversion shall not be construed as representations that amounts in VND were or may have been converted into HK\$ at such rate or any other exchange rate.

By order of the Board
Hyfusin Group Holdings Limited
WONG Wai Chit
Chairman

Hong Kong, 6 July 2023

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

EXECUTIVE DIRECTORS

Mr. Wong Wai Chit

Mr. Wong Man Chit

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Cheong Tat

Mr. Ho Chi Wai

Mr. Chu Kin Wang, Peleus

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. 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.

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.