

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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

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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 board of Directors (the “**Board**”) of the Company is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2023 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	3	866,251	684,947
Cost of sales		<u>(530,710)</u>	<u>(477,255)</u>
Gross profit		335,541	207,692
Other income	4	9,111	3,525
Other gains and losses, net	5	1,764	1,025
Selling and distribution expenses		(86,173)	(26,980)
Administrative expenses		(110,712)	(86,953)
Finance costs	6	<u>(14,571)</u>	<u>(8,811)</u>
Profit before income tax expense		134,960	89,498
Income tax expense	7	<u>(32,674)</u>	<u>(16,440)</u>
Profit for the year attributable to owners of the Company		<u>102,286</u>	<u>73,058</u>
Other comprehensive income/(expense) for the year			
<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>21</u>	<u>(252)</u>
		<u>21</u>	<u>(252)</u>
Total comprehensive income for the year attributable to owners of the Company		<u>102,307</u>	<u>72,806</u>
		HK cents	HK cents
Earnings per share			
– Basic and diluted	8	<u>9.30</u>	<u>6.64</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	<i>Notes</i>	2023 HK\$'000	2022 HK\$'000
Non-current assets			
Property, plant and equipment		90,944	68,907
Right-of-use assets		50,420	52,169
Deposits for the acquisition of property, plant and equipment		6,689	2,860
Debt instruments at fair value through other comprehensive income		921	900
Financial asset at fair value through profit or loss		3,165	–
Deferred tax assets		2,020	1,109
Pledged bank deposits		19,346	22,135
		<hr/>	<hr/>
Total non-current assets		173,505	148,080
Current assets			
Inventories	<i>10</i>	102,503	101,360
Trade and other receivables	<i>11</i>	74,138	74,643
Tax recoverable		–	5,883
Bank balances and cash		336,772	171,354
		<hr/>	<hr/>
Total current assets		513,413	353,240
		<hr/>	<hr/>
Total assets		686,918	501,320
Current liabilities			
Trade and other payables	<i>12</i>	92,285	43,882
Contract liabilities	<i>13</i>	2	14
Provision	<i>14</i>	52,994	–
Bank borrowings	<i>15</i>	6,338	23,252
Lease liabilities		2,873	2,106
Tax payable		17,511	–
		<hr/>	<hr/>
Total current liabilities		172,003	69,254
		<hr/>	<hr/>
Net current assets		341,410	283,986
		<hr/>	<hr/>
Total assets less current liabilities		514,915	432,066
		<hr/>	<hr/>

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
Non-current liabilities			
Bank borrowings	<i>15</i>	8,669	26,458
Lease liabilities		483	2,142
Other non-current liabilities		193	203
		<hr/>	<hr/>
Total non-current liabilities		9,345	28,803
		<hr/>	<hr/>
Total liabilities		181,348	98,057
		<hr/>	<hr/>
NET ASSETS		505,570	403,263
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Equity attributable to owners of the Company			
Share capital		11,000	11,000
Reserves		494,570	392,263
		<hr/>	<hr/>
TOTAL EQUITY		505,570	403,263
		<hr/> <hr/>	<hr/> <hr/>

NOTES

1. GENERAL INFORMATION

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 have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 19 July 2018. 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 (“**Mr. Andrew Wong**”) and Mr. Wong Wai Chit (“**Mr. Vincent Wong**”), who are brothers and act in concert over AVW and the companies now comprising the Group (the “**Controlling Shareholders**”).

2. ADOPTION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”) AND CHANGES IN OTHER ACCOUNTING POLICIES

(a) New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform-Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(a) **New and amendments to HKFRSs that are mandatorily effective for the current year**
(continued)

*Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2
Disclosure of Accounting Policies*

The Group has applied the amendments for the first time in the current year. HKAS 1 Presentation of Financial Statements is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the “**Practice Statement**”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group’s financial positions and performance but has affected the disclosure of the Group’s accounting policies.

New guidance on accounting for the MPF-LSP offsetting mechanism in Hong Kong issued by HKICPA

In June 2022, Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (“**the Amendment Ordinance**”) was enacted. The Amendment Ordinance abolishes the use of the accrued benefits derived from employers’ mandatory contributions under the mandatory provident fund (“**MPF**”) scheme to offset severance payment (“**SP**”) and long service payments (“**LSP**”) (“**the Abolition**”). Subsequently, the Government of HKSAR announced that the Abolition will take effect on 1 May 2025 (“**the Transition Date**”).

The following key changes will take effect since the Transition Date:

- Accrued benefits derived from employers’ mandatory MPF contributions cannot be used to offset the LSP/SP in respect of the employment period after the Transition Date.
- The pre-transition LSP/SP is calculated using the last month’s salary immediately preceding the Transition Date, instead of using the last month’s salary of employment termination date.

Due to the complexities of the accounting for the offsetting of accrued benefits derived from an employer’s mandatory MPF contributions and its LSP obligation and the accounting for the offsetting mechanism could become material in light of the Abolition, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” (“**the Guidance**”) in July 2023 to provide guidance to account for the offsetting mechanism and the Abolition. The HKICPA concluded that there are two acceptable accounting approaches for the offsetting mechanism, being:

- Approach 1: Account for the amount expected to be offset as a deemed employee contribution towards that employee’s LSP benefits in terms of HKAS 19.93(a)
- Approach 2: Account for the employer MPF contributions and the offsetting mechanism as a funding mechanism for the LSP obligation.

For the years ended 31 December 2023 and 2022, the Group’s LSP liability after the expected offsetting under the abolition of MPF-LSP offsetting mechanism is immaterial. Application of the Guidance had no material effect on the consolidated financial statements of the Group.

(b) Amendments to HKFRSs in issued but not yet effective

The Group has not early applied the following amendments to HKFRSs that have been issued but are not yet 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 ”) ^{2,4}
Amendments to HKAS 1	Non-current Liabilities with Covenants (the “ 2022 Amendments ”) ^{2,4}
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³

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

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

³ Effective for annual periods beginning on or after 1 January 2025.

⁴ As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Int 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 of the Company (the “**Directors**”) anticipate that the adoption of the new and amendments to HKFRSs will have no material impact on the Group’s consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregated revenue information

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Sale of candle products		
Daily-use candles	111,594	110,682
Scented candles	612,177	477,277
Decorative candles	27,308	10,154
Others (included Diffusers)	115,172	86,834
	<u>866,251</u>	<u>684,947</u>
Total	<u>866,251</u>	<u>684,947</u>
Timing of revenue recognition		
A point in time	866,251	684,947
	<u>866,251</u>	<u>684,947</u>

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

The contracts for sale 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 of the Company, 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.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue from external customers		
United States of America	801,380	604,968
United Kingdom	60,842	72,693
Others	4,029	7,286
	<hr/>	<hr/>
Total	866,251	684,947
	<hr/> <hr/>	<hr/> <hr/>

Information about the Group's non-current assets (exclude financial assets and deferred tax assets) is presented based on the geographical location of the assets.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current assets		
Hong Kong	3,939	5,038
Vietnam	144,114	118,898
	<hr/>	<hr/>
Total	148,053	123,936
	<hr/> <hr/>	<hr/> <hr/>

Information about major customers

Revenues from customers of the corresponding years contributing over 5% of the total revenue of the Group are as follows:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A (<i>Note</i>)	544,698	383,845
Customer B	83,113	53,876
Customer C	59,341	67,163
	<u>544,698</u>	<u>383,845</u>

Note: Revenue from Customer A is contributing over 10% (2022: over 10%) of the total revenue of the Group for year ended 31 December 2023.

4. OTHER INCOME

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	4,800	469
Interest income on debt instruments at FVTOCI	58	58
Government grants (<i>Note</i>)	–	498
Others	4,253	2,500
	<u>9,111</u>	<u>3,525</u>

Note: For the year ended 31 December 2022, included in profit of loss is approximately HK\$498,000 of government grants obtained from Employment Support Scheme (“ESS”) under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group’s employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have other unfulfilled obligations relating to this program.

5. OTHER GAINS AND LOSSES, NET

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Net foreign exchange gain	2,496	649
Gain on termination of lease	8	–
Fair value change of financial asset at FVTPL	(715)	–
Recovery of bad debts	–	2
Written-off trade receivables	(1,176)	–
Impairment loss on trade receivables, net of reversal	1,151	374
	<u>1,764</u>	<u>1,025</u>

6. FINANCE COSTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on bank borrowings	14,277	8,710
Interest on lease liabilities	294	101
	<u>14,571</u>	<u>8,811</u>

7. INCOME TAX EXPENSE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current tax		
– Hong Kong Profits Tax	25,343	10,996
– Vietnam Corporate Income Tax	7,883	5,494
– Singapore Corporate Income Tax	448	26
– (Over)/under-provision in respect of prior years	(89)	2
	<u>33,585</u>	<u>16,518</u>
Deferred tax	(911)	(78)
	<u>32,674</u>	<u>16,440</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.

For Fleming International Vietnam Limited, the subsidiary incorporated in Vietnam, the statutory corporate tax rate is 20% for the years ended 31 December 2023 and 2022.

For Fleming International (Singapore) Pte. Limited, the subsidiary incorporated in Singapore, the statutory corporate tax rate is 17% for the years ended 31 December 2023 and 2022.

The income tax expense for the years can be reconciled to the profit before income tax expense per the consolidated statement of profit or loss and other comprehensive income as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Profit before income tax expense	<u>134,960</u>	<u>89,498</u>
Tax at the Hong Kong Profits Tax rate of 16.5% (2022: 16.5%) (Note)	22,268	14,767
Tax effect of expenses not deductible for tax purposes	9,778	803
Tax effect of income not taxable for tax purpose	(445)	(67)
(Over)/under-provision in respect of prior years	(89)	2
Income tax at concessionary rate	(165)	(165)
Effect of different tax rates of subsidiaries operating in different jurisdictions	1,153	860
Others	<u>174</u>	<u>240</u>
Income tax expense	<u><u>32,674</u></u>	<u><u>16,440</u></u>

Note: The domestic tax rate (which is Hong Kong Profits Tax rate) in the jurisdiction where the operation of the Group is substantially based is used.

8. EARNINGS PER SHARE

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	<u>102,286</u>	<u>73,058</u>
	2023	2022
Number of ordinary shares		
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>

No diluted earnings per share were presented as there were no potential ordinary shares in issue for both 2023 and 2022.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company for the years ended 31 December 2023 and 2022, nor has any dividend been proposed since the end of the reporting period.

10. INVENTORIES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Raw materials	83,371	76,609
Work in progress	1,883	4,451
Finished goods	15,870	16,175
Goods in transit	9,541	7,547
	<u>110,665</u>	<u>104,782</u>
Less: Allowance for inventories	(6,037)	(3,422)
Write off of inventories	(2,125)	–
	<u>102,503</u>	<u>101,360</u>

11. TRADE AND OTHER RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables, gross	65,683	72,793
Less: Allowance for credit losses	(2,564)	(3,715)
	<u>63,119</u>	<u>69,078</u>
Prepayments, deposits and other receivables	11,019	5,565
	<u>74,138</u>	<u>74,643</u>

As at 31 December 2023, trade receivables from contracts with customers amounted to HK\$63,119,000 (2022: HK\$69,078,000).

The Group allows credit period ranging from 30 to 180 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 year:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0–30 days	34,947	44,745
31–60 days	13,453	6,095
61–90 days	2,221	8,302
91–180 days	10,694	4,867
Over 180 days	1,804	5,069
	63,119	69,078

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current (not past due)	47,219	52,769
Past due 1 to 30 days	9,524	6,698
Past due 31 to 60 days	3,630	3,910
Past due 61 to 90 days	942	486
Past due 91 to 180 days	1,804	2,042
Past due over 180 days	–	3,173
	63,119	69,078

The movements in loss allowance of trade receivables, net of reversal were as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
At beginning of the year	3,715	4,089
Reversal of loss allowance recognised	(2,531)	(2,968)
Written-off	(1,176)	–
Loss allowance recognised during the year	2,556	2,594
At end of the year	2,564	3,715

12. TRADE AND OTHER PAYABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade payables (<i>Note a</i>)	39,259	18,879
Other payables	13,435	3,077
Accrued expenses	39,591	21,926
	<u>92,285</u>	<u>43,882</u>

Note:

(a) Trade payables

The following is an aged analysis of trade payables based on the invoice date at the end of the year:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
1–30 days	24,234	14,206
31–60 days	13,372	3,919
61–90 days	1,569	352
91–180 days	84	402
Over 180 days	–	–
	<u>39,259</u>	<u>18,879</u>

The credit period on purchases of goods is 0 to 60 days.

The Group's trade payables that are denominated in currencies other than functional currency of relevant group entities are as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
VND	10,256	5,388
EUR	6	155
GBP	20	68
	<u>10,282</u>	<u>5,611</u>

13. CONTRACT LIABILITIES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Sale of candle products	<u>2</u>	<u>14</u>

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

The movements in the Group's contract liabilities are as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
At beginning of the year	14	12
Increase due to cash received, excluding amounts recognised during the year	6	2
Decrease due to recognised in revenue during the year	<u>(18)</u>	<u>–</u>
At end of the year	<u>2</u>	<u>14</u>

14. PROVISION

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Provision	<u>52,994</u>	<u>–</u>

During the year ended 31 December 2023, the Group was advised by a customer in the United States about two alerts initiated by the United States Consumer Product Safety Commission, requiring the customer to recall a certain number of units of glass jar candles supplied by the Group. In December 2023, the Group has received a claim of about US\$6.8 million (equivalents to approximately HK\$52,994,000) from the customer to compensate for its commercial losses due to the recall of the products. Accordingly, the Group has made full provision of the claim as at 31 December 2023.

15. BANK BORROWINGS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Secured and guaranteed:		
Bank borrowings		
– Bank loans	13,187	37,107
– Import and export loans	<u>1,820</u>	<u>12,603</u>
	<u>15,007</u>	<u>49,710</u>

The carrying amount of the Group's bank overdrafts and bank borrowings are repayable as follows:

	2023	2022
	HK\$'000	HK\$'000
Carrying amounts repayable (based on scheduled repayable terms):		
Within one year	6,338	23,252
More than one year, but not more than two years	3,587	4,903
More than two years, but not more than five years	5,082	12,560
More than five years	–	8,995
	15,007	49,710
Less: Amounts due shown under current liabilities		
– due within one year	(4,518)	(10,649)
– due within one year (contain a repayable on demand clause)	(1,820)	(12,603)
	(6,338)	(23,252)
Amounts shown under non-current liabilities	8,669	26,458

At 31 December 2023, the bank borrowings are guaranteed by corporate guarantees given by the Company or the Company and Fleming Group International Limited; and secured by (i) debt instruments at FVTOCI of HK\$921,000 (2022: HK\$900,000); (ii) pledged bank deposits; (iii) certain of the Group's property, plant and equipment located in Vietnam with an aggregate carrying amount of HK\$39,508,000 (2022: HK\$41,494,000); (iv) the Group's leasehold interests in land classified as right-of-use assets of HK\$47,160,000 (2022: HK\$47,940,000); and (v) financial asset at FVTPL of HK\$3,165,000 (2022: N/A).

The Group's banking facilities contain various covenants which include the maintenance of certain financial ratios. The Directors have reviewed the covenants compliance and were not aware of any breach during both years.

The exposure of the Group's bank overdrafts and bank borrowings are as follows:

	2023	2022
	HK\$'000	HK\$'000
Fixed-rate	13,187	30,136
Variable-rate	1,820	19,574
	<u>15,007</u>	<u>49,710</u>

The ranges of effective interest rates of the Group's bank overdrafts and bank borrowings are as follow:

	2023	2022
Effective interest rates (per annum):		
Fixed-rate	6.95%-6.99%	6.95%-10%
Variable-rate	7.75%-8.5%	4.25%-7.5%

The carrying amounts of the Group's bank borrowings that are denominated in currencies other than functional currency of the relevant group entities are as follows:

	2023	2022
	HK\$'000	HK\$'000
Denominated in HK\$	–	3,575
Denominated in VND	12,256	30,136

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 Group aims to be the competitive manufacturer among the industry, which requires the fostering of various abilities. The Group has encountered numerous challenges, such as completion of construction of new factory during the novel coronavirus pandemic spread in Vietnam, customers' orders decrease due to destocking, the sharp increase in raw materials in previous year and the claim from a customer for its voluntary recall in 2023. These challenges prompted us to further strengthen the organizational capacity to counter the challenges posed by the uncertainty of the external environment.

Our production capacity for candle products was enhanced by highly automation of the new factory that went into mass production in 2022. The Group expects the third factory under construction during the year of 2023, will be completed in the first half of 2024 and will further enhance the Group's production capacity and efficiency in foreseeable future. The expansion of production capacity will contribute to our rapid development to catch up with the rapid growth of candle markets in the U.S. market.

During the year ended 31 December 2023, the Group has continued to focus on the development of our main business and enhances production and operation. Due to the high demand in candle products, the level of customers' order hit the record high of the Group. The Group continues to improve the gross profit margin, benefiting from the lower unit price of raw materials and lower production overhead from synergy of high automation of the new factory. The Group continuously improve the liquidity position by lower the external borrowing during the high interest rate period.

The Group continues to improve our product strength, efficiency and capability in both operation and production. As a result of the improvement of these capabilities, the Group have achieved good market performance in 2023.

The analysis of product segment of the Group for the year ended 31 December 2023 is set out in Note 3 to the consolidated financial statements. The scented candles remains the best selling product of the Group during the year ended 31 December 2023, which the sales of scented candles increased by approximately HK\$134.9 million or 28.3% as compared with the same period in 2022. 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. The management of the Group gladly cooperates with sales representatives and expects the potential orders will be introduced by sales representatives in future.

Based on the well established long-term relationships with the customers and with support from 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 year ended 31 December 2023 amounted to approximately HK\$866.3 million, representing an increase of approximately HK\$181.4 million or 26.5% as compared with that of approximately HK\$684.9 million for the same period in 2022.

The increase in revenue was due to the increase in sales of scented candles and other candle products for approximately HK\$134.9 million and HK\$28.3 million respectively for the year ended 31 December 2023.

Gross Profit and gross profit margin

Gross profit for the year ended 31 December 2023 amounted to approximately HK\$335.5 million, representing an increase of approximately HK\$127.8 million or 61.5% as compared with that of approximately HK\$207.7 million for the same period in 2022.

The gross profit margin increased to approximately 38.7% for the year ended 31 December 2023 as compared with that of 30.3% for the same period in 2022. The increase in the gross profit margin was mainly due to the decrease in the unit price of raw materials and the decrease of production overhead for the year ended 31 December 2023.

Other income

Other income for the year ended 31 December 2023 was approximately HK\$9.1 million, representing an increase of approximately HK\$5.6 million or 160.0% compared to that of approximately HK\$3.5 million for the same period in 2022. The increase in other income mainly due to the increase in bank interest income of approximately HK\$4.3 million.

Other gains and losses

Other gains for the year ended 31 December 2023 amounted to approximately HK\$1.8 million, representing an increase of approximately HK\$0.8 million or 80% as compared with other gains of approximately HK\$1.0 million for the same period in 2022. The increase was mainly due to the increase in exchange gain for approximately HK\$1.8 million for the year ended 31 December 2023.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2023 amounted to approximately HK\$86.2 million, representing an increase of approximately HK\$59.2 million or 219.3% as compared with that of approximately HK\$27.0 million for the same period in 2022.

The increase was mainly due to (i) a provision of claim for the recall for approximately HK\$53.0 million; and (ii) increase in marketing and promotion expenses for approximately HK\$4.8 million.

Administrative expenses

Administrative expenses for the year ended 31 December 2023 amounted to approximately HK\$110.7 million, representing an increase of approximately HK\$23.7 million or 27.2% as compared with that of approximately HK\$87.0 million for the same period in 2022. The increase in administrative expenses was mainly due to the increase in salary, bonus and allowance for HK\$23.0 million.

Finance costs

Finance costs for the year ended 31 December 2023 amounted to approximately HK\$14.6 million, representing an increase of approximately HK\$5.8 million or 65.9% as compared to that of approximately HK\$8.8 million for the same period in 2022.

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

Income tax expenses

Income tax expenses for the year ended 31 December 2023 amounted to approximately HK\$32.7 million, representing an increase of approximately HK\$16.3 million or 99.4% as compared with that of approximately HK\$16.4 million for the same period in 2022. The increase in income tax expenses was mainly due to increase in assessable profits for the year.

Profit for the year

Excluding the impact of the provision of claim of the recall, the Group generated net profit of approximately HK\$155.3 million for the year ended 31 December 2023 representing an increase of approximately HK\$82.2 million or 112.4% as compared with net profit of approximately HK\$73.1 million for the same period in 2022.

Including the impact of the provision of claim of the recall, the Group generated net profit of approximately HK\$102.3 million for the year ended 31 December 2023 representing an increase of approximately HK\$29.2 million or 39.9% as compared with net profit of approximately HK\$73.1 million for the same period in 2022.

Such increase was mainly due to increase in gross profit of approximately HK\$127.8 million and offset by (a) increase in selling expenses of approximately HK\$59.2 million; (b) increase in administrative expenses of approximately HK\$23.7 million; and (c) increase in income tax expenses of approximately HK\$16.2 million.

Dividend

The Board does not recommend the payment of any dividend for the year ended 31 December 2023. The detail is disclosed in Note 9 to the consolidated financial statements contained in this announcement.

Liquidity and Financial Resources

As at 31 December 2023, the Group had total assets of approximately HK\$686.9 million (2022: approximately HK\$501.3 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$181.3 million (2022: approximately HK\$98.0 million) and approximately HK\$505.6 million (2022: approximately HK\$403.3 million) respectively.

The total interest-bearing borrowings of the Group as at 31 December 2023 were approximately HK\$15.0 million (31 December 2022: approximately HK\$49.7 million), and the current ratio of the Group as at 31 December 2023 was approximately 3.0 times (31 December 2022: approximately 5.1 times) mainly due to the increase in cash and cash equivalents while a provision of claim for the recall was made in 2023.

The Group's gearing ratio, which is calculated by dividing total debt by total equity as at the end of each of the financial year, decreased from approximately 13.4% as at 31 December 2022 to approximately 3.6% as at 31 December 2023, primarily due to the decrease in bank borrowings.

As at 31 December 2023 and 2022, the Group has unutilised banking facilities of approximately HK\$103.6 million and HK\$72.4 million respectively.

The Directors are of the view that as at the date hereof, 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 minimise the cost of funds, the Group's treasury activities are centralised and cash is generally deposited with leading licensed banks in Hong Kong and denominated in US dollars.

Capital Structure

The Company's 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 to 31 December 2023. The capital structure of the Group comprises of issued share capital and reserves. The Directors review the Group's capital structure regularly.

As at 31 December 2023, 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.

Pledge of Assets

As at 31 December 2023 and 2022, the Group had pledged certain assets including property, plant and equipment, right-of-use assets, debt instruments at fair value through other comprehensive income, financial assets at fair value through profit or loss, pledged bank deposits with carrying amounts of approximately HK\$110.1 million and HK\$112.5 million respectively to secure the Group's bank borrowings.

Future Plans for Material Investments or 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 other plans for material investment and capital assets as at 31 December 2023.

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 year ended 31 December 2023, 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 31 December 2023, the Group had capital commitments of approximately HK\$30.2 million in respect of property, plant and equipment and construction in Vietnam (2022: approximately HK\$0.25 million).

Contingent Liabilities

As at 31 December 2023, the Group did not have any contingent liabilities (2022: Nil).

Employees and Remuneration Policies

As at 31 December 2023, the Group employed approximately 1,270 (2022: approximately 1,060) staff (including executive Directors). The total amount of employee remuneration of the Group (including Directors' remuneration) for the year was approximately HK\$141.2 million (2022: approximately HK\$110.0 million).

The Company adopted the share option scheme on 23 June 2018 for the purpose to provide the Company with a flexible means of giving incentive and reward to employee of the Group for incentive or reward for their contribution to the Group.

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 6 July 2023 and the circular of the Company dated 26 July 2023, Fleming International Vietnam Limited, an indirect wholly-owned subsidiary of the Company, entered into (i) the construction contract at the contract price of VND135,000,000,000 (equivalent to approximately HK\$44.9 million) with the independent contractor in relation to the construction of a new factory on the land located at plot no. 56 map sheet No. 10, Amata Road, Amata Industrial Park, Long Binh Park, Bien Hoa City, Dong Nai Province, Vietnam which acquired in 2022 (the “**Land**”); and (ii) the service agreement with the independent service provider for the provision of project management and construction management services in respect of the works to be carried out by the aforesaid independent contractor on the Land at the service fee of VND3,550,500,000 (equivalent to approximately HK\$1.2 million).

The building construction work of the new factory commenced in July 2023 with the completion of approximately 55.9% of total construction work as at 31 December 2023 and now is expected to complete by first half of 2024 subject to any extension of time for completion.

As at 31 December 2023, the total amount of approximately VND 75,410,000,000 (equivalent to approximately HK\$24.3 million) and approximately VND 2,929,162,500 (equivalent to approximately HK\$0.9 million) were paid in accordance with the construction contract and service agreement for project and construction management provider respectively.

The Board considers 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.

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 warehouses.

For further details, please refer to the announcements of the Company dated 9 March 2022 and 6 July 2023, and the circular of the Company dated 26 July 2023.

Save as disclosed above and other than disclosed as elsewhere in this announcement, the Group did not have any significant investments, material acquisitions and disposals of subsidiaries and capital assets during the year ended 31 December 2023.

PRINCIPAL RISKS AND UNCERTAINTIES

There are certain risks and uncertainties involved in the Group's current operations, some of which are beyond the Group's control. The most significant risks relating to the business such as (i) fluctuations in prices of raw materials or unstable supply of raw materials could negatively impact the operations and may affect our profitability; (ii) our business is concentrated in the U.S. and the U.K. and is highly susceptible to any adverse economic or social conditions in these markets which would materially and adversely affect the demand for the products; (iii) our business relies on key management personnel; (iv) operational risk; and (v) the credit risk of trade receivables that the cash flow position may be affected. A detailed discussion of the risk factors is set out in the section headed "Risk Factors" in the Prospectus.

OUTLOOK

Looking forward, the business and operation environments of the Group will remain challenging. Nevertheless, we will embrace these challenges by implementing proactive marketing strategies, investing more resources for product development and reinforcing on cost control measures.

Based on our success, we remain optimistic about the Group's future development. We intend to execute our development plan as set forth in the Prospectus carefully and prudently for the purpose of bringing a desirable return to the Shareholders and facilitating the long-term growth of the business of the Group.

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\$1.1 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 31 December 2023, 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 listing date (i.e. 19 July 2018) to 31 December 2023 is set out below:

	Approximate amount of net proceeds <i>HK\$ million</i>	Approximate% of net proceeds %	Unused amount of net proceeds as at 1 January 2023 <i>HK\$ million</i>	Approximate actual utilised during the reporting period <i>HK\$ million</i>	Approximate actual utilised as at 31 December 2023 <i>HK\$ million</i>	Unused amount of net proceeds as at 31 December 2023 <i>HK\$ million</i>
Upgrade existing production facilities	6.2	13.9	6.2	-	-	6.2
Acquisition of new production facilities	18.1	40.7	-	-	18.1	-
Purchase of new machinery	9.2	20.7	-	-	9.2	-
Installation of Enterprise Resource Planning ("ERP") systems	2.0	4.5	0.8	0.8	2.0	-
Partial repayment of bank loans	6.9	15.5	-	-	6.9	-
General working capital	2.1	4.7	-	-	2.1	-
	<u>44.5</u>	<u>100.0</u>	<u>7.0</u>	<u>0.8</u>	<u>38.3</u>	<u>6.2</u>

Upgrade existing production facilities

As at 31 December 2023, the management of the Group may consider the renovation of existing production facilities together with the planning for the construction of warehouse for the new land acquired in 2022 that is more efficient for operation. The Group expects the renovation of existing production facilities will be scheduled in 2024.

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

The Group paid approximately HK\$9.2 million for the acquisition of machineries for the expected increasing purchase orders from its customers.

Installation of ERP systems

As at 31 December 2023, the Group paid approximately HK\$2.0 million for the related expenses of the ERP systems for production, warehouse management and customer relationship management.

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.

EVENT AFTER THE REPORTING PERIOD

On 20 February 2024, the Company entered into a sale and purchase agreement in respect of the share buy-back (the “**Agreement**”) with Vibes Enterprises Company Limited, an independent shareholder (the “**Vendor**”), pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to repurchase for cancellation, a total of 181,500,000 ordinary shares of the Company at the total consideration of HK\$30,000,000, equivalent to approximately HK\$0.165 per share. The Agreement is conditional upon the satisfaction of the following conditions:

- (i) the passing of the resolution(s) at the extraordinary general meeting of the Company to be convened and held for the disinterested shareholders to consider, and if thought fit, approve the Agreement, the share buy-back and the transactions contemplated thereunder by at least three-fourths of the votes cast on a poll by the disinterested shareholders approving the Agreement and the transactions contemplated thereunder;
- (ii) the approval by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of its delegate for the share buy-back having been granted pursuant to Rule 2 of the Share Buy-backs Code and remaining in full force and effect and any condition(s) to which such approval is/are subject to having been satisfied in all respects; and
- (iii) all necessary consents and approvals required to be obtained on the part of the Company and the Vendor in respect of the Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect.

As at the date of this announcement, the above conditions have not yet satisfied and the share buy-back has not yet completed. Assuming that completion of the share buy-back had taken place on 31 December 2023, the Group's audited net assets per share attributable to owners of the Company as at 31 December 2023 would have increased by approximately 12.6% from approximately HK\$0.460 per share to HK\$0.518 per share. As the total consideration for the share buy-back will be settled in cash, the share buy-back is not expected to have any impact on the liabilities of the Group.

For further details, please refer to the announcement of the Company dated 20 February 2024.

CORPORATE GOVERNANCE PRACTICES

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 (the "**CG Code**") in Appendix C1 to the GEM Listing Rules. During the year ended 31 December 2023, to the best knowledge of the Board, the Company had complied with the code provisions in the CG Code.

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. The Company has also established written guidelines on no less exacting terms than the Required Standard of Dealings for relevant employees in respect of their dealings in the Company's securities. 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 year ended 31 December 2023. No incident of non-compliance was noted by the Company for the year ended 31 December 2023.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2023.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31 December 2023 including critical accounting policies, estimation uncertainty and significant judgement adopted by the Group.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by BDO Limited on the preliminary announcement.

ANNUAL GENERAL MEETING AND PUBLICATION OF ANNUAL REPORT

The annual general meeting ("AGM") for the financial year 2023 of the Company will be held on Friday, 7 June 2024. A notice of the AGM together with the annual report for the year ended 31 December 2023 will be published on the Company's website at www.hyfusingroup.com and the Stock Exchange's website at www.hkexnews.hk and despatched to the shareholders of the Company in due course.

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, 26 March 2024

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.