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Hephaestus Holdings Limited

客思控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8173)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Hephaestus Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months ended 30 June 2022. This announcement, containing the full text of the 2022 first quarterly report of the Company for the three months ended 30 June 2022 (the “**2022 First Quarterly Report**”), complies with the relevant requirements of the Rules Governing the Listing of Securities (“**GEM Listing Rules**”) on the GEM of The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of first quarterly results. The printed version of the 2022 First Quarterly Report will be dispatched to the shareholders of the Company and available for viewing on the website of The Stock Exchange of Hong Kong Limited and of the Company at www.hephaestus.com.hk in due course in the manner as required by the GEM Listing Rules.

By order of the Board
Hephaestus Holdings Limited
Huang Liang

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 12 August 2022

As at the date of this announcement, the Board comprised two executive Directors, Mr. Huang Liang and Ms. Lou Yi and three independent non-executive Directors, Mr. Luk Chi Shing, Mr. Lee Man Chun and Mr. Chi Zheng Yuqiang.

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. This announcement will also be published on the Company’s website at www.hephaestus.com.hk.

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors (the “**Directors**” and each the “**Director**”) of Hephaestus Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) 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. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report 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 report misleading.*



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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 30 JUNE 2022

		Three months ended 30 June	
	Note	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Revenue	4	11,340	13,916
Cost of services		(6,476)	(6,698)
Gross profit		4,864	7,218
Other income		872	1
Other losses		(765)	(41)
Administrative expenses		(3,899)	(4,463)
Profit from operations		1,072	2,715
Finance costs	5	(6)	(398)
Profit before tax		1,066	2,317
Income tax	6	(49)	(301)
Profit and total comprehensive income for the period	7	1,017	2,016
Earnings per share	8		(restated)
Basic		HK0.47 cents	HK0.83 cents
Diluted		N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 30 JUNE 2022

	Attributable to the owners of the Company (unaudited)						
	Share capital	Share premium	Treasury shares	Capital redemption reserve	Other reserves	Accumulated losses	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000
At 1 April 2021 (audited)	122	156,179	—	—	(68,482)	(33,182)	54,637
Total comprehensive income for the period	—	—	—	—	—	2,016	2,016
Repurchase of shares (Note 10 (a))	—	—	(7,457)	—	—	—	(7,457)
Share repurchase expenses	—	—	(35)	—	—	—	(35)
Changes in equity for the period	—	—	(7,492)	—	—	2,016	(5,476)
At 30 June 2021 (unaudited)	122	156,179	(7,492)	—	(68,482)	(31,166)	49,161
At 1 April 2022 (audited)	108	145,239	—	14	(68,482)	(29,031)	47,848
Total comprehensive income and changes in equity for the period	—	—	—	—	—	1,017	1,017
At 30 June 2022 (unaudited)	108	145,239	—	14	(68,482)	(28,014)	48,865

Note:

Other reserves comprise the adjustment of the legal capital of Absolute Surge Limited (“**Absolute Surge**”) to reflect the legal capital of the Company arising from the reverse takeover completed on 13 November 2019 and the difference between the nominal value of share capital of the subsidiaries of Absolute Surge acquired pursuant to the reorganisation completed on 26 April 2019 over the nominal value of the share capital of Absolute Surge issued in exchange therefor.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE THREE MONTHS ENDED 30 JUNE 2022

1. GENERAL INFORMATION

Hephaestus Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is at Rooms 1204-06, The Chinese Bank Building, 61 Des Voeux Road Central, Central, Hong Kong.

The Company together with its subsidiaries, hereinafter collectively referred to as the “**Group**”, is principally engaged in the provision of interior design and execution services.

In the opinion of the directors of the Company, as at 30 June 2022, Hong Kong Jun Tai Ting Investment Company Limited (“**Jun Tai Ting Investment**”), a company incorporated in the British Virgin Islands, is the immediate and ultimate holding company and Ms. Ye Huacong is the ultimate controlling party of the Company.

This unaudited condensed consolidated financial information for the three months ended 30 June 2022 is presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousand (“**HK\$’000**”) except when otherwise indicated.

2. BASIS OF PREPARATION

This unaudited condensed consolidated financial information has been prepared in accordance with the applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The unaudited condensed consolidated financial information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which are measured at fair value.

The unaudited condensed consolidated financial information should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 March 2022. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of the unaudited condensed consolidated financial information are consistent with those used in the audited consolidated financial statements of the Group for the year ended 31 March 2022 and there have been no significant changes in the financial risk management policies for the three months ended 30 June 2022.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies applied in this unaudited condensed consolidated financial information are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 March 2022. In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2022 but they do not have a material effect on the Group's unaudited condensed consolidated financial information for the three months ended 30 June 2022. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 April 2022 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing this unaudited condensed consolidated financial information.

4. REVENUE

An analysis of the Group's revenue for the period is as follows:

	Three months ended 30 June	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Interior design and execution services	11,340	13,806
Colour-rendering services	—	110
	<u>11,340</u>	<u>13,916</u>

5. FINANCE COSTS

	Three months ended 30 June	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Interest on lease liabilities	6	22
Interest on bank loans	—	376
	<u>6</u>	<u>398</u>

6. INCOME TAX

Income tax has been recognised in profit or loss as follows:

	Three months ended 30 June	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Current tax		
Hong Kong Profits Tax	49	301

Under the two-tiered profits tax regime, profits tax rate for the first HK\$2 million of assessable profits of qualifying corporations established in Hong Kong is lowered to 8.25%, and profits above that amount is subject to the tax rate of 16.5%.

7. PROFIT FOR THE PERIOD

The Group's profit for the period is arrived at after charging/(crediting):

	Three months ended 30 June	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Employee benefit expenses (including directors' emoluments):		
Salaries and allowances	6,129	6,460
Other benefits (represent rent paid)	87	87
Retirement benefit scheme contributions	221	237
	6,437	6,784
Depreciation of property, plant and equipment	51	130
Gain on disposal of property, plant and equipment	(7)	—
Depreciation of right-of-use assets	95	1,127
Rental expenses relating to short-term leases	879	—
Government grants (Note)	(864)	—

Note: Government grants for the Employment Support Scheme (the "ESS") in respect of the COVID-19 pandemic were received to provide financial support to the Group to retain its employees during the three months ended 30 June 2022.

8. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company for the three months ended 30 June 2022 is based on the following:

	Three months ended 30 June	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Earnings		
Profit attributable to owners of the Company	1,017	2,016

	Three months ended 30 June	
	2022 (unaudited) '000	2021 (unaudited) '000 (restated)
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	215,347	244,211

The weighted average number of shares and the basic earnings per share for the three months ended 30 June 2021 are adjusted retrospectively to take into account the effect of the share consolidation during the period (Note 10(b)) as if it had taken place before the beginning of the comparative period.

No diluted earnings per share for the periods has been presented as there were no potential dilutive shares outstanding.

9. DIVIDENDS

The Board of Directors does not recommend a payment of any dividend in respect of the three months ended 30 June 2022 (three months ended 30 June 2021: Nil).

10. SHARE CAPITAL

	Note	Number of shares	Amount HK\$'000
Authorised:			
At 1 April 2021 and 30 June 2021			
Ordinary shares of HK\$0.0001 each		100,000,000,000	10,000
Share consolidation	(b)	<u>(80,000,000,000)</u>	<u>—</u>
At 1 April 2022 and 30 June 2022			
Ordinary shares of HK\$0.0005 each		<u>20,000,000,000</u>	<u>10,000</u>
Issued and fully paid:			
At 1 April 2021 and 30 June 2021			
Repurchase and cancellation of shares	(a)	1,221,052,631	122
		(115,904,000)	(14)
Share consolidation	(b)	<u>(889,802,105)</u>	<u>—</u>
At 1 April 2022 and 30 June 2022			
Ordinary shares of HK\$0.0005 each		<u>215,346,526</u>	<u>108</u>

Note:

(a) Repurchase and cancellation of shares

During the year ended 31 March 2022, the Company repurchased its own shares as follows:

	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid HK\$'000
Before share consolidation:				
June 2021	100,960,000	0.076	0.070	7,457
July 2021	7,840,000	0.067	0.063	507
August 2021	1,520,000	0.043	0.043	65
September 2021	40,000	0.042	0.042	2
	<u>110,360,000</u>			<u>8,031</u>
After share consolidation:				
September 2021	4,072,000	0.475	0.230	1,549
October 2021	2,720,000	0.480	0.480	1,306
	<u>117,152,000</u>			<u>10,886</u>

The above shares were fully cancelled as at 31 March 2022.

On 24 June 2021 and 25 June 2021, the Company repurchased a total of 100,960,000 shares of the Company on the Stock Exchange at a price ranging from HK\$0.070 to HK\$0.076 per share at a total consideration (before expenses of approximately HK\$35,000) of approximately HK\$7,457,000 which had yet to be cancelled as at 30 June 2021.

Pursuant to section 37 of the Cayman Islands Companies Act, an amount equivalent to the nominal value of the shares cancelled of approximately HK\$14,000 was transferred to the capital redemption reserve and the share premium account was adjusted accordingly.

(b) Share consolidation

With the approval of the Company's shareholders at an extraordinary general meeting held on 31 August 2021, every five issued and unissued shares of HK\$0.0001 each were consolidated into one share of HK\$0.0005 each in the share capital of the Company with effect from 2 September 2021.

11. RELATED PARTY TRANSACTIONS

The directors of the Company are of the view that during the period, transactions with the following parties are considered as related party transactions:

Name of related party	Relationship with the Group
Waldorf Holdings Limited	Controlled by Mr. Chan Norman Enrique, a former executive director of the Company (resigned on 4 March 2022) and a former director of a significant subsidiary of the Company (resigned on 19 April 2022)

(a) The Group had the following transactions with its related parties during the period:

	Three months ended 30 June	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Office rental paid to Waldorf Holdings Limited	879	1,044

(b) Key management personnel compensation

The emoluments of directors and other key management personnel of the Group during the period are as follows:

	Three months ended 30 June	
	2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000
Salaries and allowances	445	837
Other benefits (represent rent paid)	87	87
Retirement benefit scheme contributions	6	13
	538	937

MANAGEMENT DISCUSSION AND ANALYSIS

The board of Directors (the “**Board**”) hereby announces the unaudited condensed consolidated results of the Group for the three months ended 30 June 2022, together with the comparative unaudited figures for the corresponding periods in 2021.

FINANCIAL REVIEW

Revenue

Revenue decreased from approximately HK\$13.9 million for the three months ended 30 June 2021 to approximately HK\$11.3 million for the three months ended 30 June 2022, representing a decrease of approximately HK\$2.6 million or 18.5%. The decrease was mainly attributable to a combination of factors, including (i) the increase in revenue from commercial projects; and (ii) the decrease in revenue from private residence, show flat and corporate office projects.

Cost of services

Cost of services for the three months ended 30 June 2021 and 2022 amounted to approximately HK\$6.7 million and HK\$6.5 million, respectively, representing a decrease of approximately HK\$0.2 million or 3.3%. The decrease was in line with the decrease in revenue.

Gross profit and gross profit margin

For the three months ended 30 June 2022, gross profit amounted to approximately HK\$4.9 million, which decreased by approximately HK\$2.3 million from approximately HK\$7.2 million for the three months ended 30 June 2021. The decrease in gross profit was mainly due to the decrease in revenue which decreased by approximately HK\$2.6 million. Gross profit margin decreased from approximately 51.9% for the three months ended 30 June 2021 to approximately 42.9% for three months ended 30 June 2022.

Other income

Other income for the three months ended 30 June 2021 and 2022 amounted to approximately HK\$1,000 and HK\$872,000, respectively, representing a significant increase of approximately HK\$871,000. The increase was mainly due to government grant for the ESS of approximately HK\$864,000 received for the three months ended 30 June 2022 but no government grants received during the three months ended 30 June 2021.

Other losses

Other losses increased from approximately HK\$41,000 for the three months ended 30 June 2021 to approximately HK\$765,000 for the three months ended 30 June 2022. Such increase was mainly attributable to (i) fair value losses of financial assets through profit or loss of approximately HK\$496,000; and (ii) net exchange losses of approximately HK\$245,000.

Administrative expenses

Administrative expenses decreased from approximately HK\$4.5 million for the three months ended 30 June 2021 to approximately HK\$3.9 million for the three months ended 30 June 2022, representing a decrease of approximately HK\$0.6 million or 12.6%. The decrease was mainly due to the decrease in office rents and legal and professional fees during the three months ended 30 June 2022, as compared with the same period last year.

Finance costs

Finance costs, which comprised interests on bank loans and lease liabilities, decreased by approximately HK\$392,000 or 98.5%, from approximately HK\$398,000 for the three months ended 30 June 2021 to approximately HK\$6,000 for the three months ended 30 June 2022. Such decrease was mainly due to decrease in interest on bank loans of approximately HK\$376,000 in relation to the full repayment of the outstanding amounts of secured bank loans during the year ended 31 March 2022.

Profit before tax

Profit before tax decreased from approximately HK2.3 million for the three months ended 30 June 2021 to approximately HK\$1.1 million for the three months ended 30 June 2022, representing a decrease of approximately HK\$1.2 million. The decrease was mainly due to the decrease in revenue of approximately HK\$2.6 million as compared with the same period last year.

Income tax

Income tax decreased by approximately HK\$252,000 or 83.7% from approximately HK\$301,000 for the three months ended 30 June 2021 to approximately HK\$49,000 for the three months ended 30 June 2022. The decrease in income tax was consistent with the decrease in profit before tax which decreased by approximately HK\$1.2 million.

Profit and total comprehensive income

Profit and total comprehensive income for the three months ended 30 June 2022 decreased by approximately HK\$1.0 million, from approximately HK\$2.0 million to profit attributable to owners of the Company for the three months ended 30 June 2021 to approximately HK\$1.0 million. Such decrease was mainly attributable to the combined effect of the aforementioned items.

Charges over assets of the Group

As at 30 June 2022, the Group had no charge on assets.

BUSINESS REVIEW AND PROSPECTS

The Group is principally engaged in provision of interior design and execution services to premises including private residences, corporate offices, service apartments, hotels, residential clubhouses, show flats and sales galleries.

The Group's goals are to achieve sustainable growth and further strengthen its overall competitiveness and business growth in the interior design industry in Hong Kong. The Directors are of the view that the Group's capability to understand customers' requirements and transform far-fetched concepts into visionary solutions that embrace functionality and aesthetics has gained trust and appreciation from customers and enabled the Group to be one of the reputable players in the interior design industry in Hong Kong.

The Group will remain cautiously attentive over the market conditions given the unpredictable macroeconomic environment across the globe, particularly when COVID-19 pandemic remains as a threat to the health and safety of global and local communities. Moreover, the vaccination rate in Hong Kong as well as worldwide, all of which play a crucial role in the economic recovery. Despite weakening market sentiment, the Company is of the view that the Hong Kong residential market is likely to be supported by relatively low mortgage rates and continuous demand.

The Group will continue to capitalise on opportunities by leveraging the Group's competitive strengths and implementing the following strategies: (i) maintain and strengthen market position in Hong Kong; (ii) enhance brand recognition and strengthen marketing efforts; and (iii) continue to recruit talents and enhance internal training to support future growth.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2022, so far as is known to any Directors or chief executive of the Company, none of the Directors and chief executives of the Company had any interests or short positions in any shares (the "**Share(s)**"), underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2022, so far as is known to the Directors and the chief executives of the Company, the interests and shorts positions of the persons or corporations (other than the Directors and the chief executive of the Company) in the shares and underlying shares as recorded in the register to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Interest in			Approximate percentage of shareholding (Note 1 and 3)
		Interest in shares of the Company (Note 1)	Interest in underlying shares of the Company (Note 1)	Total interest in shares of the Company (Note 1)	
Jun Tai Ting Investment	Beneficial owner (Note 2)	159,068,639(L)	—	159,068,639(L)	73.87%(L)
Ms. Ye Huacong	Interest of controlled corporation (Note 2)	159,068,639(L)	—	159,068,639(L)	73.87%(L)
Mr. Huang Liang	Interest of spouse (Note 2)	159,068,639(L)	—	159,068,639(L)	73.87%(L)

Notes:

- (1) "L" represents long position in shares or underlying shares of the Company and "S" represents short position in shares or underlying shares of the Company.
- (2) Jun Tai Ting Investment is wholly and beneficially owned by Ms. Ye Huacong. Under the SFO, Ms. Ye Huacong is deemed to be interested in the Shares held by Jun Tai Ting Investment. Mr. Huang Liang is the spouse of Ms. Ye Huacong. Mr. Huang Liang is deemed to be interested in all the Shares in which Ms. Ye Huacong is interested in for the purpose of the SFO.
- (3) The percentage is calculated on the basis of 215,346,526 Shares in issue as at 30 June 2022.

Save as disclosed above, as at 30 June 2022, so far as is known to the Directors and the chief executive of the Company, and based on the public records filed on the website of the Stock Exchange and records kept by the Company, no other persons or corporations (other than the Directors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme at the annual general meeting of the Company held on 30 July 2012 (the “**Share Option Scheme**”) for the purpose of providing incentives and rewards to the eligible participants who contributed to the growth of the Group which has expired on 29 July 2022.

During the three months ended 30 June 2022, no share options were granted, exercised, cancelled, lapsed or forfeited. As at 30 June 2022, there were no outstanding share option.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in this report, at no time during the three months ended 30 June 2022 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors (including their respective spouses and children under the age of 18) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations, and none of the Directors or their respective spouses or children under the age of 18 had any right to subscribe for shares of the Company or any of its associated corporations or had exercised any such right during the three months ended 30 June 2022.

COMPETING INTERESTS OF DIRECTORS

As at 30 June 2022, none of the Directors, the substantial shareholders of the Company nor any of their respective close associates (as defined under the GEM Listing Rules) had any interest in a business which has or may have significant competition with the business of the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND AFFILIATED COMPANIES

The Group had no material acquisitions or disposals of subsidiaries, associates and affiliated companies during the three months ended 30 June 2022.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the three months ended 30 June 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company during the three months ended 30 June 2022.

CORPORATE GOVERNANCE PRACTICES

The Company considers the maintenance of a high standard of corporate governance is important to the continuous growth of the Group. The Company's corporate governance practices are based on code provisions as set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 15 to the GEM Listing Rules. The Company has adopted the CG Code to ensure that the Group's business activities and decision-making processes are regulated in a proper and prudent manner.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Huang Liang is acting as the chairman and chief executive officer. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board considers the deviation from code provision A.2.1 of the CG Code to be appropriate in such circumstance.

The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Under the code provision A.1.8 of the CG Code, provides that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. After 8 January 2022, the Company did not arrange any new insurance cover in respect of potential legal actions against its Directors and officers. The management of the Group believe that all potential claims and legal actions against the Directors can be handled effectively, and the possibility of actual litigation against the Directors is very low. On 9 June 2022, the Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers with retroactive date starting from 29 November 2021.

Throughout the three months ended 30 June 2022 and up to the date of this report, other than the deviation from code provision A.2.1 and A.1.8, the Company complied with the provisions of the CG Code as set out in Appendix 15 to the GEM Listing Rules.

DIVIDEND

The Board does not recommend a payment of any dividend by the Company for the three months ended 30 June 2022.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed herein, the Directors are not aware of any significant event which had material effect on the Group's operating and financial performance subsequent to 30 June 2022 and up to the date of this report.

INTEREST OF THE COMPLIANCE ADVISER

As notified by Messis Capital Limited ("**Messis Capital**"), the Company's compliance adviser (until 30 June 2022), save for the compliance adviser agreement entered into between the Company and Messis Capital dated 31 October 2019, neither Messis Capital, its close associates (as defined in the GEM Listing Rules) nor any of its directors, employees has or may have any interest in the Group or which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 30 June 2022.

AUDIT COMMITTEE AND REVIEW OF QUARTERLY RESULTS

The Group has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and code provision C.3.3 of the CG Code. The primary duties of the Audit Committee are to oversee the relationship with Company's auditor, review of the Company's financial information and oversee the Company's financial reporting system, risk management and internal control system.

The Audit Committee comprises of three independent non-executive directors, namely Mr. Luk Chi Shing, Mr. Lee Man Chun and Mr. Zheng Yuqiang. The chairman of the Audit Committee is Mr. Luk Chi Shing, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules to serve as the chairman of the Audit Committee.

The first quarterly results of the Group for the three months ended 30 June 2022 have not been audited. The Audit Committee has reviewed and approved the unaudited condensed consolidated financial information of the Group for the three months ended 30 June 2022 and is of the opinion that the preparation of such information 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.

By order of the Board

Hephaestus Holdings Limited

Huang Liang

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 12 August 2022

As at the date of this report, the Board comprised two executive Directors, Mr. Huang Liang and Ms. Lou Yi and three independent non-executive Directors, Mr. Luk Chi Shing, Mr. Lee Man Chun and Mr. Zheng Yuqiang.