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KWUNG'S HOLDINGS LIMITED

曠世控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1925)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Board hereby announces the annual results of the Group for the year ended 31 December 2019.

FINANCIAL HIGHLIGHTS

	2019	2018	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	501,131	444,704	12.7%
Gross profit	133,679	107,029	24.9%
Gross profit margin	26.7%	24.1%	
Profit for the year	27,810	77,051	(63.9)%
Adjusted profit for the year	45,263	45,335	(0.2)%
Earnings per share (basic and diluted)	9.3 cents	25.7 cents	(63.8)%
Dividend proposed in respect of the year (per share)	–	35.0 cents	(100)%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a prominent original design manufacturer and supplier of home decoration products, comprising candles, home fragrance and home accessories. The Group's principal products for the year ended 31 December 2019 are candles and home fragrance. The Group's products are sold to customers situated in more than 20 countries and regions, including France, United Kingdom, the Netherlands, Germany, Canada and Australia where candles and home fragrance are widely used in ordinary people's daily life.

The Group's business is primarily conducted on original design manufacturing basis. The Group is responsible for providing product designs, procuring raw materials, manufacturing products, and identifying and supervising contract manufacturers (where required). After obtaining approval from our customers on the designs and specifications, the Group issues sales confirmation to record product details and terms of our sales and then proceed to mass production either through own production facilities or through external contract manufacturers. Products are packed and labeled according to customer's instruction. The Group has selected lines of self-branded products such as "Fumare" and "Aromart" branded candles and home fragrance in the PRC and Australia. Products sold under "Fumare" target the mid-to-high-end consumer market and products sold under "Aromart" brand target mid-end and mass markets. The Group sells self-branded products mainly through e-commerce platforms, distributors and our self-operated stores in the PRC.

The Group has integrated production facilities situated in Ningbo and Shaoxing, both in Zhejiang Province of the PRC. The Group undertakes the production of a majority of our candles with our in-house production facilities. Under certain circumstances, the Group outsources the production orders to third party contract manufacturers in the PRC.

The Group's major customers comprise retailers of home decoration products as well as wholesalers who import and sell our products to the overseas markets through their own distribution networks. A majority of the Group's major customers are renowned home decor retailers or wholesalers in Europe. Sales to the Group's five largest customers during the year ended 31 December 2019 accounted for approximately 55.7% of the Group's total revenue and sales to the Group's largest customer during the year ended 31 December 2019 accounted for approximately 16.2% of the Group's total revenue. In addition to retailers and wholesalers, to capture market share and reach a wide customer, a small proportion of the Group's products (mainly self-branded products) were sold to consumers directly through the Group's diversified sales channels, which in aggregate, accounted for approximately 0.3% of the Group's total revenue for the year ended 31 December 2019.

The Group's suppliers comprise suppliers of raw materials and consumables and contract manufacturers. The Group made procurement from over 250 suppliers for the year ended 31 December 2019. The Group's major suppliers of raw materials and consumables are corporate entities who are principally engaged in the production and/or sale of wax, containers, accessories and aroma essence in the PRC. To optimise the cost of production and increase our overall production efficiency especially during peak seasons, to the extent commercially desirable and cost-efficient to do so, the Group outsources the production of certain batches of candles and the production of home fragrance and home accessories to external contract manufacturers.

FINANCIAL REVIEW

Revenue

The Group's revenue mainly arises from the export sales of the Group's candles products, home fragrance products and home accessories during the year. It increased by approximately RMB56.4 million or 12.7% to approximately RMB501.1 million for the year ended 31 December 2019 from approximately RMB444.7 million for the year ended 31 December 2018. We recorded an increase in revenue for all products. The increase in revenue was mainly contributed by the increased purchase orders from the Group's existing major customers. In addition, the Group mainly has export sales to European countries and the purchase orders are denominated in United States dollars. As such, the appreciation of United States dollars against RMB during the year ended 31 December 2019 has positive effect to the Group's revenue for the year ended 31 December 2019.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB26.7 million or 24.9% to approximately RMB133.7 million for the year ended 31 December 2019 from approximately RMB107.0 million for the year ended 31 December 2018. Such increase in gross profit was mainly because of the increase in the Group's revenue during the year ended 31 December 2019.

The Group's gross profit margin increased to 26.7% for the year ended 31 December 2019 from approximately 24.1% for the year ended 31 December 2018. Such increase was mainly contributed by the appreciation of United States dollars against RMB during the year ended 31 December 2019 as mentioned above, which resulted in an increase in revenue but brought minimal impact in the production costs of the Group since the majority of the Group's suppliers are local enterprises in PRC and the Group was billed in RMB.

Other income

The Group's other income mainly comprises income from government grants in PRC and also the rental income earned from leasing the Group's properties. It decreased by approximately RMB4.0 million or 67.3% to approximately RMB1.9 million for the year ended 31 December 2019 from approximately RMB5.9 million for the year ended 31 December 2018. The Group disposed of the properties for lease during the year ended 31 December 2018 and therefore no rental income was earned for the year ended 31 December 2019, resulting in such decrease in the Group's other income for the year ended 31 December 2019.

Administrative expenses

The Group's administrative expenses mainly comprise payroll costs for management team and supporting staff, expenses incurred in relation to the Listing, cost of raw materials consumed for research and development purpose, depreciation expenses in relation to the Group's office buildings and office equipment and cost of utilities for office use.

There was an increase in administrative expenses of approximately RMB22.5 million or approximately 47.2% to approximately RMB70.3 million for the year ended 31 December 2019 from approximately RMB47.8 million for the year ended 31 December 2018. Increase in the Group's administrative expenses for the year ended 31 December 2019 was mainly due to the larger expenses incurred in relation to the Listing. In addition, the Group incurred larger expenses for employee benefits as a result of the team expansion to support the growth and development of the Group.

Selling and marketing expenses

The Group's selling and marketing expenses mainly comprise payroll costs for staff in the sales departments, sample inspection and delivery costs, commissions to agents, and advertising and promotion expenses.

There was an increase in selling and marketing expenses of approximately RMB1.7 million or 24.1% to approximately RMB8.6 million for the year ended 31 December 2019 from approximately RMB6.9 million for the year ended 31 December 2018. Increase in the Group's selling and marketing expenses for the year ended 31 December 2019 was mainly due to additional sample inspection costs incurred to support the increased purchase orders and also operating costs for the newly set up self-operated stores.

Other gains and losses

The Group's other gains and losses mainly comprise net foreign exchange differences, net losses on forward contracts and gains on disposal of subsidiaries.

There was disposal of a subsidiary during the year ended 31 December 2018 contributing to a one-off gain of approximately RMB42.5 million for the year ended 31 December 2018, contributing to a net other gains for the year ended 31 December 2018 in spite of a net fair value losses on forward contracts of approximately RMB17.2 million during the year ended 31 December 2018.

The Group's net fair value losses on forward contracts increased by approximately RMB10.4 million or 60.2% to approximately RMB27.6 million for the year ended 31 December 2019 from approximately RMB17.2 million for the year ended 31 December 2018. Forward contracts for foreign currencies, mainly RMB against United States dollars, are arranged over the years to manage the foreign currency exposure arising from purchase orders from overseas customers, which are mainly denominated in United States dollars. Depreciation of United States dollars against RMB would have negative impact to the Group's revenue amounts while the gain from the forward contracts arranged would offset such impact, and vice versa. Given the appreciation of United States dollars against RMB during the year ended 31 December 2019, such offset was reflected in the simultaneous increase in revenue amount and the increase in the net fair losses on forward contracts during the year ended 31 December 2019.

Finance costs

The Group's finance costs comprise interest charged on a short-term bank loan and also the interest expense component on the operating lease arrangement in relation to the leased production facilities.

There is an increase in the Group's finance costs by approximately RMB0.3 million or 219.3% to approximately RMB0.5 million for the year ended 31 December 2019 from approximately RMB0.2 million for the year ended 31 December 2018. Such increase was mainly due to a short-term bank loan borrowed by the Group during the year ended 31 December 2019 for general working capital purpose. Such bank loan was fully repaid during the year ended 31 December 2019.

Income tax expense

The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) *Cayman Islands income tax*

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(ii) *BVI income tax*

Under the current laws of the BVI, entities incorporated in BVI are not subject to tax on their income or capital gains.

(iii) *Hong Kong income tax*

No provision for Hong Kong profits tax was made as the Group did not derive any income subject to Hong Kong profits tax during the years ended 31 December 2018 and 2019.

(iv) PRC corporate income tax

Income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the years, based on the existing legislation, interpretations and practices in respect thereof. The statutory tax rate was 25% for the years ended 31 December 2018 and 2019.

Ningbo Kwung's was qualified as a "High and New Technology Enterprise" since 2008 and renewed its qualification in November 2017, and it is subject to a reduced preferential corporate income rate of 15% from 2008 until November 2020.

In addition, according to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2018, during the period from 1 January 2018 to 31 December 2020 enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year. Management of the Group assess that the Group is eligible to such claim for the year ended 31 December 2019.

There was a decrease in the Group's income tax expense by approximately RMB7.0 million or 59.5% to approximately RMB4.8 million for the year ended 31 December 2019 from approximately RMB11.8 million for the year ended 31 December 2018. Such decrease was mainly due to the decrease in profit before tax of the Group's PRC subsidiaries for the year ended 31 December 2019.

The overall effective tax rate of the Group increased from approximately 13.2% for the year ended 31 December 2018 to approximately 14.6% for the year ended 31 December 2019. Such increase was mainly because of more expenses in relation to the Listing incurred in Hong Kong during the year ended 31 December 2019, which was not deductible for PRC corporate income tax purpose.

Adjusted profit before tax and adjusted profit for the year

The Group recognised non-recurring items for the years ended 31 December 2018 and 2019. To supplement the financial information prepared and presented in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants, the adjusted profit before tax and adjusted profit for the year is also presented below for the purpose of better analysis on the Group's financial performance from its ordinary business.

Such additional financial information is presented as these were used by the Group's management to evaluate the Group's financial performance by eliminating the impact of non-recurring items including expenses in relation to the Listing and net gain on the disposal of a subsidiary of the Group which are considered not indicative for evaluation of the actual performance of the Group's business. The Group's adjusted profit before tax and adjusted

profit for the year are not measures of performance under HKFRSs. It is believed that these non-HKFRSs measures are a more accurate indication of the Group's profitability and operating performance for the years ended 31 December 2018 and 2019. However, these non-HKFRS measures should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of the Group's operating performance or other consolidated operations data prepared in accordance with HKFRSs. The use of non-HKFRSs measures has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant years.

The table below sets forth the Group's adjusted profit before tax and adjusted profit for the years ended 31 December 2018 and 2019:

	2019	2018
	RMB'000	RMB'000
Adjusted profit before tax		
Profit before income tax	32,568	88,808
Adjusted for:		
(i) Expenses in relation to the Listing	18,116	5,178
(ii) Net gain on disposal of a subsidiary ⁽¹⁾	–	(42,491)
	<u>50,684</u>	<u>51,495</u>
Adjusted profit before tax	50,684	51,495
Adjusted profit for the year		
Profit for the year	27,810	77,051
Adjusted for:		
(i) Expenses in relation to the Listing	18,116	5,178
(ii) Net gain on disposal of a subsidiary ⁽¹⁾	–	(42,491)
(iii) Corresponding tax impact ⁽²⁾	(663)	5,597
	<u>45,263</u>	<u>45,335</u>
Adjusted profit for the year	45,263	45,335

Notes:

- (1) Net gain on the disposal of a subsidiary of approximately RMB42.5 million for the year ended 31 December 2018 was related to the sale of the Group's then subsidiary, Shaoxing Shi Jingming Cultural Development Co., Ltd. (紹興市景明文化發展有限公司).
- (2) The corresponding tax impact is calculated by deducting certain expenses in relation to the Listing incurred by Ningbo Kwung's and net gain on disposal of a subsidiary and applying the tax rate of 15%.

Property, plant and equipment

The Group's property plant and equipment mainly comprise net carrying amounts of the office building, production plants, machinery and the corresponding capitalised renovation costs. There was an increase in the net carrying amounts of the Group's property, plant and equipment by approximately RMB16.9 million during the year ended 31 December 2019 which was mainly related to the costs incurred for the set up and the renovation of the new production plants in Yinzhou District, Ningbo City, Zhejiang Province, PRC, for the expansion of the production capacity for the Group's candle products, and also the launch of new production lines for the Group's home fragrance products.

Right-of-use assets

The Group's right-of-use assets comprise net carrying amounts of the prepaid land use rights for the lands used by the Group's office building and production plants, and also the net carrying amounts of the properties leased by the Group.

There was an increase in the net carrying amounts of the Group's right-of-use assets by approximately RMB3.5 million during the year ended 31 December 2019 which was mainly related to the newly leased production plant in Yinzhou District, Ningbo City, Zhejiang Province, PRC.

Inventories

The Group's inventory balance comprises raw materials, work in progress and finished goods for the Group's candle products, home fragrance products and home accessories products. There was an increase in the Group's inventory balance by approximately RMB3.4 million or 8.7% to approximately RMB42.7 million as at 31 December 2019 from approximately RMB39.3 million as at 31 December 2018 which was mainly due to the increased stock level of raw materials for upcoming production plans in the first quarter of 2020. Most of the Group's raw materials have been utilised for production up to the date of this announcement.

Trade receivables

Trade receivables balance as at 31 December 2019 mainly represented outstanding balance from the Group's overseas customers. There was an increase in trade receivables balance before allowance for impairment of approximately RMB1.1 million or 1.7% from approximately RMB64.8 million as at 31 December 2018 to approximately RMB65.9 million as at 31 December 2019. The increase in the Group's trade receivables balance was in line with the Group's business growth as reflected by the increase in the Group's revenue for the year ended 31 December 2019.

Most of the Group's trade receivables balance were aged within 180 days. The Group experienced limited bad debt issues over the years and a small provision for impairment of trade receivables of approximately RMB1.0 million was recorded as at 31 December 2019, which is calculated based on the expected credit loss percentage for the aged trade receivables balance.

Prepayments, deposits and other receivables

The balance of prepayments, deposits and other receivables comprises mainly advances to suppliers, deferred costs in relation to the Listing, recoverable value-added tax and amounts due from related parties.

There was a decrease in the balance of approximately RMB137.2 million or 83.3% to approximately RMB27.6 million as at 31 December 2019 from approximately RMB164.7 million as at 31 December 2018, which was mainly due to the settlement of approximately RMB143.7 million by related parties during the year ended 31 December 2019 in relation to the reorganisation of the Group in preparation for the Listing.

Cash and cash equivalents

The balance of cash and cash equivalents as at 31 December 2018 comprised a temporary fund of approximately RMB49.0 million received from the then shareholders of the Company which was pending to be remitted back to them in relation to the reorganisation of the Group in preparation for the Listing. The balance of cash and cash equivalents dropped to a normal level after the repayment of the fund to such shareholders of the Company during the year ended 31 December 2019.

Trade and other payables

The balance of trade and other payables comprises mainly payables to suppliers of raw materials, amounts due to related parties and payroll payables to the Group's employees.

There was a decrease in the balance of approximately RMB175.3 million or 78.9% to approximately RMB46.8 million as at 31 December 2019 from approximately RMB222.2 million as at 31 December 2018, which was mainly due to settlement of approximately RMB163.7 million to related parties during the year ended 31 December 2019 in relation to the reorganisation of the Group in preparation for the Listing.

Financial liabilities at fair value through profit or loss

The balance of financial liabilities at fair value through profit or loss represented the fair value of the foreign currency forward agreements entered into with commercial banks in respect of the exchange rate of RMB against United States dollars.

There was a significant increase in the balance by approximately RMB11.4 million or 371.6% to approximately RMB14.5 million as at 31 December 2019 from approximately RMB3.1 million as at 31 December 2018, mainly as a result of the appreciation of United States dollars against RMB during the year ended 31 December 2019.

Lease liabilities

The balance of lease liabilities represents the present value of future lease payments in respect of office premises and production plants leased by the Group.

There is an increase in the balance of approximately RMB4.1 million to approximately RMB9.5 million as at 31 December 2019 from approximately RMB5.4 million as at 31 December 2018, which was mainly due to a newly leased production plant mainly for the expansion of the Group's production capacity during the year ended 31 December 2019.

RECENT DEVELOPMENT

Global offering and the Listing

The Company offered 100,000,000 ordinary shares at a price range between HK\$1.28 and HK\$1.60 per share for subscription on 30 December 2019. The offer price was determined at HK\$1.28 and the Company's shares were successfully listed on the Main Board of the Stock Exchange on 16 January 2020. The net proceeds after deducting the listing expenses amounted to approximately RMB126.1 million. In addition, the Over-Allotment Option (as defined in the Prospectus) was partially exercised and the Company issued 5,042,000 ordinary shares, representing approximately 5.04% of number of shares initially offered for subscription at HK\$1.28 per ordinary share of the Company. Additional net proceeds of approximately RMB5.8 million were received pursuant to such partial exercise of the Over-Allotment Option.

The net proceeds will be applied in the manner as set out in the section headed "Future Plans and the Use of Proceeds" of the Prospectus.

Impact from outbreak of novel coronavirus

Since January 2020, there has been a global outbreak of a novel coronavirus disease ("COVID-19") affecting many countries, including but not limited to, the PRC and European countries such as France, United Kingdom, Netherlands and Germany. A series of precautionary and control measures have been adopted and continued to be in place across the PRC and other countries, including certain level of restrictions and controls on travelling and traffic arrangements, quarantine restrictions, heightening of hygiene and epidemic prevention requirements in factories and offices and reducing social activities, etc. It has a temporary but not material impact on the Group's production activities. The Group's production capacity has resumed normal since middle of March 2020. In addition, we have been in close communication with our customers, especially the ones from European countries, from time and time, and some of them requested for a short postponement of our shipment. Nevertheless, there has been a few cancellation of purchase orders as a result of COVID-19. Accordingly, the Directors believe that the impact from COVID-19 to the Group's financial performance is temporary and not material up to the date of this announcement. The Group will take appropriate measures as necessary and make further announcement(s) as and when appropriate.

Development of our business-to-consumer sales channel

The Group currently has several business-to-consumer sales channels, such as retail stores and internet sales, to the retail customers in the PRC. As at the date of this announcement, the Group operates 12 retail stores in the PRC and intends to open more retail stores in the near future. In addition, the Group is also looking to expand such business-to-consumer sales channel in other countries, such as Australia. The Group expects that such expansion plan will strengthen our brand building strategy and bring forth a better growth of our sales of candle products, home fragrance products and home accessories products around the globe.

FUTURE PLANS

With a view to fuel the Group's business growth, proactively capture market opportunities, expand the sales of the Group's products and increase the Group's market shares, the Directors plan to implement the following measures: (i) establish physical presence overseas to increase market penetration of the Group's products, better serve the Group's major customers and enlarge the customer base in the Group's major market; (ii) expand and upgrade the production facilities to strengthen the in-house production capabilities to achieve economies of scale; (iii) strengthen the Group's research and development capabilities to enrich the Group's product offering and increase the overall competitiveness; (iv) upgrade the Group's information system and logistics capacities to increase operational efficiency; and (v) enhance the Group's sales and marketing efforts to enlarge market share, cultivate brand loyalty and capture potential business opportunities in markets outside Europe.

FINANCIAL INFORMATION

The financial information below has been agreed with the external auditor of the Company.

Consolidated statement of comprehensive income
Year ended 31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
Revenue	3	501,131	444,704
Cost of sales		(367,452)	(337,675)
Gross profit		133,679	107,029
Administrative expenses		(70,311)	(47,766)
Selling and marketing expenses		(8,574)	(6,910)
Net impairment losses on financial assets		(662)	(228)
Other income	5	1,919	5,871
Other (losses)/gains, net	6	(23,088)	30,885
Operating profit		32,963	88,881
Finance income		119	88
Finance costs		(514)	(161)
Finance costs, net	7	(395)	(73)
Profit before income tax		32,568	88,808
Income tax expense	8	(4,758)	(11,757)
Profit for the year		27,810	77,051
Profit for the year attributable to:			
– Owners of the Company		27,820	77,010
– Non-controlling interests		(10)	41
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		9	61
Total comprehensive income for the year		27,819	77,112
Total comprehensive income attributable to:			
– Owners of the Company		27,827	77,059
– Non-controlling interests		(8)	53
Earnings per share for profit attributable to owners of the Company – Basic and diluted	9	9.3 cents	25.7 cents

Consolidated statement of financial position

As at 31 December 2019

		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		48,278	31,354
Right-of-use assets		16,720	13,223
Intangible assets		3,504	2,525
Deferred income tax assets		3,043	1,138
		<hr/>	<hr/>
Total non-current assets		71,545	48,240
		<hr/>	<hr/>
Current assets			
Inventories	10	42,671	39,261
Trade receivables	11	64,920	64,330
Prepayments, deposits and other receivables	12	27,566	164,746
Financial assets at fair value through profit or loss		–	1,530
Cash and cash equivalents		67,843	92,611
		<hr/>	<hr/>
Total current assets		203,000	362,478
		<hr/>	<hr/>
Total assets		274,545	410,718
		<hr/> <hr/>	<hr/> <hr/>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	13	–	–
Share premium	13	163,681	163,681
Other reserves		(34,556)	(39,513)
Retained earnings		68,957	46,087
		<hr/>	<hr/>
		198,082	170,255
Non-controlling interests		638	646
		<hr/>	<hr/>
Total equity		198,720	170,901
		<hr/> <hr/>	<hr/> <hr/>

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
LIABILITIES			
Current liabilities			
Trade and other payables	14	46,815	222,159
Contract liabilities		4,054	2,428
Current income tax liabilities		950	6,745
Financial liabilities at fair value through profit or loss		14,472	3,069
Lease liabilities		3,863	1,870
		<hr/>	<hr/>
Total current liabilities		70,154	236,271
		<hr/>	<hr/>
Non-current liabilities			
Lease liabilities		5,671	3,546
		<hr/>	<hr/>
Total liabilities		75,825	239,817
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		274,545	410,718
		<hr/> <hr/>	<hr/> <hr/>

Notes:

1. BASIS OF PREPARATION

The financial information is extracted from the Group's consolidated financial statements which have been prepared in accordance with HKFRSs and under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value. The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2019.

The preparation of the Group's consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the Group's accounting policies.

All new standards, amendments to existing standards and interpretations, including HKFRS 16, "Leases", which are effective for the first time for the financial year beginning on or before 1 January 2019 have been consistently applied to the Group's consolidated financial statements for the track record period from 1 January 2016 to 31 December 2018 in connection with the initial public offering of the Company and for the year ended 31 December 2019.

2. NEW STANDARD AND AMENDMENTS NOT YET ADOPTED

A number of new standard, and amendments had been issued but were not mandatory for the financial year beginning on 1 January 2019 and have not been early adopted by the Group.

The Group has already commenced an assessment of the impact of these new standard and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the Directors, no significant impact on the financial performance and position of the Group is expected when they become effective.

3. REVENUE

Revenue mainly comprises of proceeds from selling goods. An analysis of the Group's revenue by category for the years ended 31 December 2019 and 2018 is as follows:

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from customers		
Candles	318,808	311,038
Home fragrance	91,150	64,964
Home accessories	91,173	68,702
	501,131	444,704

4 EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and consumables used	150,403	151,690
Subcontracting costs	182,704	155,816
Employee benefit expenses	54,165	43,748
Transportation expenses	15,336	11,640
Utilities	3,195	4,083
Depreciation of property, plant and equipment	3,638	3,244
Depreciation of investment properties	–	1,199
Amortisation of intangible assets	419	362
Amortisation and depreciation of right-of-use assets	2,444	1,452
Taxes and surcharges	3,299	4,216
Travelling expenses	2,031	1,335
Operating lease expenses	640	218
Business entertainment expenses	784	632
Sample inspection and express fees	2,876	1,982
Advertising and promotion expenses	1,222	1,085
Auditor's remuneration (annual audit service)	1,150	–
Statutory audit fees	165	587
Other service fees	1,241	758
Listing expenses	18,116	5,178
Office expenses	668	440
Insurance expenses	237	381
Sales commission	876	1,471
Others	728	834
	446,337	392,351

5 OTHER INCOME

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Other income		
Rental income	–	3,370
Government grants		
– relating to financial support	1,919	2,499
– relating to tax refund	–	2
	1,919	5,871

Government grants are mainly related to unconditional government subsidies received by the Group from relevant government bodies.

6 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Losses on disposal of property, plant and equipment – net	(38)	(107)
Net foreign exchange gains	5,521	4,818
Net fair value gains on USD:RMB fixed – fixed cross-currency interest rate swap	–	1,297
Net losses on forward contracts	(27,559)	(17,204)
Net fair value gains on wealth management products issued by commercial banks	–	387
Net gains on disposal of subsidiaries	–	42,491
Donation expenses	(400)	(300)
Others	(612)	(497)
	<u>(23,088)</u>	<u>30,885</u>

7 FINANCE COSTS – NET

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income	<u>119</u>	<u>88</u>
Finance costs		
Interest expenses	(250)	–
Interest expenses on lease liabilities	<u>(264)</u>	<u>(161)</u>
	<u>(514)</u>	<u>(161)</u>
	<u>(395)</u>	<u>(73)</u>

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC corporate income tax	6,663	12,308
Deferred income tax		
– PRC corporate income tax	<u>(1,905)</u>	<u>(551)</u>
Income tax expense	<u>4,758</u>	<u>11,757</u>

9 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted number of ordinary shares deemed to be in issue during 2019 and 2018, respectively. The weighted average number of ordinary shares had been retrospectively adjusted for the effects of capitalisation issue on 13 January 2020.

The Company did not have any potential ordinary shares outstanding during 2019 and 2018.

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company (<i>RMB'000</i>)	27,820	77,010
Weighted average number of ordinary shares in issue	300,000,000	300,000,000
Basic earnings per share for profit attributable to the owners of the Company (expressed in RMB cents per share)	<u>9.3 cents</u>	<u>25.7 cents</u>

Diluted earnings per share is equal to basic earnings per share.

10 INVENTORIES

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	23,300	20,506
Work in progress	2,818	2,849
Finished goods	16,583	16,086
Provision for impairment of inventories	(30)	(180)
	<u>42,671</u>	<u>39,261</u>

11 TRADE RECEIVABLES

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables due from third parties	65,877	64,783
Less: allowance for impairment of trade receivables	(957)	(453)
Trade receivables – net	<u>64,920</u>	<u>64,330</u>

Trade receivables all arise from sales of goods.

As at 31 December 2019 and 2018, the gross carrying amounts of trade receivables before provision are denominated in the following currencies:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
US\$	63,915	62,853
RMB	1,962	1,930
	<u>65,877</u>	<u>64,783</u>

As at 31 December 2019 and 2018, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	37,034	24,129
Over 30 days and within 180 days	26,799	39,843
Over 180 days and within one year	1,296	630
Over one year and within two years	708	131
Over two years	–	50
Over three years	40	–
	65,877	64,783

As at 31 December 2019 and 2018, the fair value of trade receivables approximated their carrying amounts. Sales of products are received in accordance with the terms of the relevant sales agreements, and due for payment upon the issuance of invoice.

The Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets. The expected loss rates are based on the payment profiles of sales over a period of 36 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the factors such as GDP of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. As at 31 December 2019 and 2018, the Group does not hold any collateral as security over these debtors.

	31 December	31 December
	2019	2018
	ECL Rate	ECL Rate
Within 30 days	0.08%	0.11%
Over 30 days and within 180 days	0.17%	0.22%
Over 180 days and within one year	22.77%	28.31%
Over one year and within two years	77.47%	83.60%
Over two years	100.0%	100.00%

Movements in the provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	(453)	(207)
Provision for impairment	(504)	(246)
At the end of the year	(957)	(453)

12 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Prepayments		
– Advances to suppliers	10,266	12,411
– Listing expenses	6,966	1,646
– Prepaid income tax	416	153
– Prepaid value-added tax	4,199	1,250
	<u>21,847</u>	<u>15,460</u>
Other receivables		
– Deposits	513	29
– Advances to employees	650	482
– Recoverable value-added tax	3,386	5,174
– Amounts due from related parties	468	143,652
– Others	911	–
	<u>5,928</u>	<u>149,337</u>
Total	<u>27,775</u>	<u>164,797</u>
Less: Allowance for impairment of other receivables	<u>(209)</u>	<u>(51)</u>
	<u><u>27,566</u></u>	<u><u>164,746</u></u>

Movements in the provision for impairment of other receivables are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	(51)	(68)
Reversal/(Provision) for impairment	(158)	17
Written off during the year	–	–
At the end of the year	<u><u>(209)</u></u>	<u><u>(51)</u></u>

13 SHARE CAPITAL AND SHARE PREMIUM

On 13 November 2018, the Company was incorporated in the Cayman Islands. At the date of incorporation, the authorised share capital is HK\$ 380,000 at par value of HK\$0.001.

Ordinary shares issued and fully paid:

	Number of ordinary shares	Nominal value of shares <i>HK\$</i>	Equivalent nominal value of shares <i>RMB</i>	Share premium <i>RMB'000</i>
At 13 November 2018 (date of incorporation) (<i>Note a</i>)	1	0.001	0.001	–
Issuance of ordinary shares (<i>Note b</i>)	<u>69,999</u>	<u>69.999</u>	<u>61.333</u>	<u>163,681</u>
At 31 December 2019 and 2018	<u><u>70,000</u></u>	<u><u>70</u></u>	<u><u>61.33</u></u>	<u><u>163,681</u></u>

Notes:

- (a) 1 share of HK\$0.001 was allotted and issued on 13 November 2018.
- (b) The share issued on 13 November 2018 in above (a) was transferred to King Harmony Limited on 20 November 2018. Additional 50,525 shares with nominal value of HK\$50.525, 12,624 shares with nominal value of HK\$12.624, 5,450 shares with nominal value of HK\$5.45 and 1,400 shares with nominal value of HK\$1.4 were allotted and issued to King Harmony Limited, DMA Limited, Unione Limited and Well Happiness Limited respectively on 19 December 2018.

As at 19 December 2018, the above shareholders of the Company have agreed to contribute approximately RMB163,681,000 to the Company in aggregate, the difference between this amount and the nominal value of HK\$70 was recorded as share premium. Approximately RMB49,048,000 was paid by shareholders during 2018 and the remaining RMB114,632,000 was received in 2019.

14 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables due to third parties	19,452	40,906
Other payables due to:	12,719	165,562
– related parties	269	163,681
– third parties	12,450	1,881
Staff salaries and welfare payables	13,546	12,181
Accrued taxes other than income tax	<u>1,098</u>	<u>3,510</u>
	<u><u>46,815</u></u>	<u><u>222,159</u></u>

As at 31 December 2019 and 2018, all trade and other payables of the Group were non-interest bearing.

15 DIVIDENDS

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends	—	105,000

During the year ended 31 December 2019, no dividends were declared and paid by the Company (2018: nil).

During the year ended 31 December 2018, Ningbo Kwung's declared dividends of RMB105,000,000 to its then shareholders.

FINAL DIVIDEND

The Board does not recommend the payment of dividend in respect of the year ended 31 December 2019.

A total dividend of RMB105,000,000 was declared and paid by Ningbo Kwung's to its then shareholders. The dividend per share of approximately RMB0.35 for the year ended 31 December 2018 was calculated on the basis that the then issued 70,000 shares of the Company and a capitalisation of 299,930,000 shares of the Company were treated as if these shares had been in issue since 1 January 2018.

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

The Company's shares were not listed during the year ended 31 December 2019 and no purchase, sale or redemption of the Company's listed shares can be made by the Company until 16 January 2020, the date when the Company's shares was listed on the Main Board of the Stock Exchange.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "CG Code"). Save as disclosed below, the Company has complied with the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive and Mr. JIN Jianxin currently performs these two roles. Throughout the Group's business history, Mr. Jin, being a founder of the Group and a controlling shareholder of the Company, has held the key leadership position of the Group and has been deeply involved in the formulation of corporate strategies and management of the business and operations of the Group since its establishment. Taking into account the consistent leadership within the Group, the Board believes that it is in the best interests of the Group and the shareholders of the Company as a whole to have Mr. Jin taking up both roles for effective and efficient overall strategic planning and continuation of the implementation of such plans for the Group. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial information in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2019 as set out in this announcement has been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect

did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

REVIEW BY THE AUDIT COMMITTEE

The results of the Company for the year ended 31 December 2019 has been reviewed by the audit committee of the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Friday, 5 June 2020. The notice of the AGM will be issued and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 2 June 2020 to Friday, 5 June 2020, both days inclusive, for the purpose of ascertaining the entitlement of the shareholders of the Company to attend and vote at the AGM. In order to be entitled to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 1 June 2020.

DEFINITION

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

“AGM”	the annual general meeting of the Company to be held in Hong Kong on Friday, 5 June 2020
“Board”	the board of Directors
“China” or “PRC”	The People's Republic of China and, except where the context requires and only for the purpose of this announcement, references to China do not include Taiwan, Hong Kong or the Macao Special Administrative Region of the PRC
“Company”	Kwung's Holdings Limited
“Director(s)”	director(s) of the Company

“Group”, “our Group”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing”	listing of Shares on Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ningbo Kwung’s”	Ningbo Kwung’s Wisdom Art & Design Co., Ltd. (寧波曠世智源工藝設計有限公司), a company established in the PRC with limited liability on 4 January 1999, and a wholly-owned subsidiary of the Company
“Prospectus”	prospectus of the Company dated 30 December 2019
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
Kwung’s Holdings Limited
JIN Jianxin
Chairman

Hong Kong, 31 March 2020

As at the date of this announcement, the executive Directors are Mr. JIN Jianxin, Mr. RU Liming and Mr. TIAN Dong; the non-executive Director is Mr. SHAO Patrick; and the independent non-executive Directors are Mr. LAI Chun Yu, Mr. YANG Herong and Mr. ZHAO Kai.