ANNUAL REPORT

2019

曠世控股有限公司

KWUNG'S HOLDINGS LIMITED

Incorporated in the Cayman Islands with limited liability | Stock Code : 1925

CONTENT

In the event of any inconsistency between the English version and the Chinese version of this annual report, the English version shall prevail.

DEFINITION

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

"Articles"	articles of association of the Company
"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 annual report, references to China do not include Taiwan, the Hong Kong Special Administrative Region of the People's Republic of China or the Macao Special Administrative Region of the People's Republic of China
"Company"	Kwung's Holdings Limited
"Directors"	the directors of the Company
"Group", "our Group", "we", "us" or "our"	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of the present subsidiaries, the present subsidiaries of the Company and the business carried on by such subsidiaries or (as the case may be) their predecessors
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"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
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares of HK$0.001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

CORPORATE INFORMATION

Board of Directors
Mr. JIN Jianxin (Chairman and executive Director)
Mr. RU Liming (Executive Director)
Mr. TIAN Dong (Executive Director)
Mr. SHAO Patrick (Non-executive Director)
Mr. LAI Chun Yu (Independent non-executive Director)
Mr. YANG Herong (Independent non-executive Director)
Mr. ZHOU Kai (Independent non-executive Director)

Company Secretary
Mr. Lau Chung Wai (FCPA (Practising))

Audit Committee
Mr. LAI Chun Yu (Chairman)
Mr. SHAO Patrick
Mr. ZHOU Kai

Remuneration Committee
Mr. ZHOU Kai (Chairman)
Mr. JIN Jianxin
Mr. LAI Chun Yu

Nomination Committee
Mr. YANG Herong (Chairman)
Mr. JIN Jianxin
Mr. LAI Chun Yu

Authorised Representatives
(for the purpose of the Listing Rules)
Mr. LAU Chung Wai
Mr. TIAN Dong

External Auditor
PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22nd Floor
Prince's Building
Central, Hong Kong

Compliance Adviser
China Industrial Securities International Capital Limited

Registered Office
89 Nexus Way
Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

Principal Place of Business in Hong Kong
Unit 629A, 6th Floor
Star House
No. 3 Salisbury Road
Tsim Sha Tsui, Kowloon
Hong Kong

Head Office and Principal Place of Business in the PRC
827 Qixiang Road
Ningbo City, Zhejiang Province
PRC

Principal Share Registrar
Ogier Global (Cayman) Limited
89 Nexus Way
Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

Hong Kong Share Registrar
Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
No. 183 Queen's Road East
Wanchai, Hong Kong

Stock Code
1925

Website
http://www.kwungs.com
(information on the website does not form part of this annual report)


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Hello from Nature
FumaRe
Hello from Nature
FumaRe


FumaRe
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Osmanthus


FumaRe
Hello from Nature
2020

CHAIRMAN'S STATEMENT

For our Group, 2019 was an extraordinary year. Due to the complicated and changing international situations, the frequent fluctuation of renminbi exchange rate and the sharp rise of production costs have brought unprecedented challenges to the home decoration products export industry. On the other hand, the domestic market consumption in China has been upgraded and the demand for high-end health and leisure products has continued to grow, bringing market opportunities for aromatherapy products. To deal with this situation, we fully took forward with the innovative culture of products, the upgrade of brand effectiveness, the expansion of sales channels and other measures which led to an encouraging results in 2019. We achieved sustainable revenue and profit growth and laid a solid foundation for the sustainable and stable development in future.

Facing the varying market environment, we will adhere to our development concepts of innovation-driven initiatives, brand leadership, design support and product optimization, in order to expand the share and export volume of overseas markets and accelerate the upgrade of the scale of the market sales in China and the influence of our branding channels. We will also strive for the enhancement of sales and service, the implementation of the organization of self-owned logistics system, the incorporation of self-owned overseas sale and marketing companies and the integration of the cooperation model between overseas dealers and chain retailers. Along with the emerging trend of new retail models and the rapid development of various e-commerce platforms, we will establish the network of brand stores in key cities. Also, we will expand our online sales channels dynamically and speed up the fostering of new sources of income. We will strictly implement the financial budgets and cost-saving plan, introduce the development of high-end products and advanced marketing talents and improve the comprehensive operating effectiveness.

As a leading company engaging in the design, production and related services of home decoration products in China for over 20 years, we have always been taking the lead in initiating innovation in our development. Our technical centre places emphasis on professional design as well as professional research and development including the types, ingredients, scents and appearance of the products in order to bring a fascinating experience in all aspects of types, shapes, colours and scents to customers all over the world.

In 2020, the upgrade of market consumption and the transformation of traditional marketing model are irreversible. Facing the unfavourable factors brought from uncertain global situation, we will leverage on our competitive advantages, prioritize quality, speed up the expansion of channels and marketing transformation and strive for the provision of more enhanced services to global consumers in order to create higher value for our Shareholders.

JIN Jianxin
Chairman

31 March 2020

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

FINANCIAL REVIEW *(Continued)*

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.

FINANCIAL REVIEW *(Continued)*

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.

FINANCIAL REVIEW *(Continued)*

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 ***RMB'000***	2018 *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)
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
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%.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

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 report.

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.

FINANCIAL REVIEW *(Continued)*

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 report. 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 report, 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.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. JIN Jianxin (金建新先生), aged 54, is our executive Director, chairman and the chief executive officer. He is our founder and joined our Group in January 1999. He is responsible for executing board resolutions, formulating business development plans and strategies and overseeing the daily business operation of the Group. He is the uncle of Mr. Tian and the brother-in-law of Mr. Ru.

Mr. Jin has over 20 years of experience in the manufacturing, marketing and selling of candle products. He has been the chairman of the board of Ningbo Kwung's since its establishment and is primarily responsible for the overall management of Ningbo Kwung's. Since 2016, he has been appointed as the vice chairman of China Daily-use Chemical Industry Association (Candle Division) (中國日用化工協會蠟燭分會).

Mr. Jin graduated from Beijing International Studies University (北京第二外國語學院) with a degree of bachelor of economics in July 1989. He was awarded with the qualification of Senior Economist by the Zhejiang Province Human Resources and Social Security Department (浙江省人力資源和社會保障廳) in February 2011. In January 2014, he was named as Culture New Zhejiang Entrepreneur (文化新浙商) by the Selection Committee of the Culture New Zhejiang Entrepreneur (文化新浙商評選組委會).

Mr. Jin is also a director of Kwung's Investments Limited, Kwung's Wisdom (Hong Kong) Co., Limited, Ningbo Kwung's, Ningbo Aromage Homeware Co., Ltd. (寧波香薰時代家居用品有限公司) and Neobee Australia Pty Ltd, all of which being subsidiaries of the Company.

Mr. RU Liming (茹黎明先生), aged 58, is our executive Director. He is responsible for formulating the business development plans and strategies, organising board meetings and executing board resolutions. He is the brother-in-law of Mr. Jin.

Mr. Ru has solid experience in the manufacturing and selling of candle products. Before joining our Group, he was a deputy factory director of Shaoxing Kwung's Candles & Giftware Co., Ltd. (紹興曠世蠟業禮品有限公司) from June 2002 to February 2004 and was responsible for supervising and coordinating the candle manufacturing and quality control process. In February 2004, he joined our Group as a deputy general manager of Ningbo Kwung's. He was appointed as a director of Ningbo Kwung's in June 2015 and was responsible for overseeing the daily operation and assisting the chairman of the board to formulate the business development strategies of Ningbo Kwung's.

Mr. Ru graduated from Zhejiang University of Technology (浙江工業大學) with a diploma of mechanical engineering (機制工藝與設備專業) in October 1996.

Mr. Ru is also a director of Ningbo Koman Import and Export Co., Ltd. (寧波苛曼進出口有限公司), a wholly owned subsidiary of the Company.

Mr. TIAN Dong (田東先生), aged 40, is our executive Director. He is responsible for overseeing the financial and capital operation of the Group. He is the nephew of Mr. Jin.

Mr. Tian has been working in our Group for more than 10 years. He joined our Group in 2004 as an office administrator of the performance appraisal office of Ningbo Kwung's and was promoted to supervisor of the information system department of Ningbo Kwung's in November 2008. Since November 2011, he has been working as the secretary of the board of Ningbo Kwung's and has been responsible for the corporate governance, organisation of the directors' and shareholders' meetings of Ningbo Kwung's.

Mr. Tian graduated from Zhejiang University of Science and Technology (浙江科技學院) with a degree of computer science and technology (計算機科學與技術) in June 2002. He also obtained a master degree of science in distributed systems and networks from University of Kent in November 2004.

Mr. Tian is also a director of Ningbo Fenyuan Aromatherapy Products Co. Ltd. (寧波芬緣香薰製品有限公司), a wholly owned subsidiary of the Company.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. SHAO Patrick (邵平先生), aged 54, is our non-executive Director. Mr. Shao joined our Group as a director of Ningbo Kwung's in June 2015. He is primarily responsible for formulating the business development plans and strategies of our Group.

Mr. Shao has extensive experience in business strategies formulation, business development and operation. From June 2005 to July 2015, he was the vice general manager of Guangzhou Shi Xinli Metal Limited (廣州市新力金屬有限公司), a brake pad friction materials manufacturing company and was primarily responsible for the development of new products and formulation of business strategies of the company. Currently, he is the vice general manager and director of human resources department of Zhangjiagang Xinli Metal Limited (張家港新力金屬有限公司), a PRC company engaging in the manufacturing of brake pad friction materials. He is responsible for formulating the business strategies and overseeing the daily operation of the company.

Mr. Shao graduated from Peking University (北京大學) with a degree of bachelor of Chinese Literature in July 1989.

Independent Non-executive Directors

Mr. LAI Chun Yu (**黎振宇先生**), aged 43, is our independent non-executive Director. He was appointed as our independent non-executive Director on 16 December 2019. He is responsible for providing independent advice to our Board.

Mr. Lai has more than 18 years of experience in the area of accounting, auditing and financial management. From July 2000 to December 2003, he worked as an accountant in Ernst & Young. From August 2005 to June 2007, he worked as a financial controller of Qin Jia Yuan Media Services Company Limited (presently known as SMI Culture & Travel Group Holdings Limited), a media services provider listed on the Stock Exchange (stock code: 2366), and was primarily responsible for assisting in the budget preparation, treasury, internal control and investor relation matter of the company. From May 2009 to June 2017, he worked as a company secretary of Amber Energy Limited (presently known as Puxing Energy Limited), a clean energy provider in the PRC listed on the Stock Exchange (stock code: 90), and was responsible for assisting in the listing and corporate governance matters of the company. Since February 2018, he has become the director of MCGI Consultancy Limited, a business consultancy firm in Hong Kong, and has been responsible for the strategic planning, business development and operation of the company.

Mr. Lai obtained a degree of bachelor of business (accountancy) from Queensland University of Technology in August 1999. Mr. Lai has become a Certified Practising Accountant of CPA Australia since November 2002. He was admitted as a certified public accountant of HKICPA in January 2004 and has become a fellow member of HKICPA since 2010.

Mr. Lai has held directorship in the following listed companies in Hong Kong in the last three years:

Period	Name of entity	Principal business activities	Position held	Responsibilities
October 2019 – Present	Tailam Tech Construction Holdings Limited (stock code: 6193)	Manufacture and sale of concrete piles and commercial concrete in the PRC	Independent non-executive director	Providing independent advice to the board of the company
October 2014 – August 2018	Anxian Yuan China Holdings Limited (stock code: 922)	Provision of funeral service in the PRC	Independent non-executive director	Providing independent advice to the board of the company

Independent Non-executive Directors *(Continued)*

Mr. YANG Herong (楊和榮先生), aged 56, is our independent non-executive Director. He was appointed as our independent non-executive Director on 16 December 2019. He is responsible for providing independent advice to our Board.

Mr. Yang has more than 20 years of experience in the area of finance, investment and management. The following table sets forth the working experience of Mr. Yang:

Period	Name of entity	Principal business activities	Position held	Responsibilities
November 2007 – Present	Chisage Holding Group Co., Ltd (中哲控股集團有限公司)	Investment	Chairman	Formulating strategies and overseeing the operation of the company
March 2007 – Present	Ningbo Chisage Mushang Holding Limited (寧波中哲慕尚控股有限公司)	Retail and brand management	Chairman	Overseeing the operation of the company
May 2005 – October 2007	Ningbo Zhonghui Investment Co., Ltd. (寧波中匯投資有限公司)	Property development and investment	Chairman	Overseeing the operation of the company
December 2001 – April 2005	Ningbo Hehe Import & Export Co., Ltd. (寧波合和進出口有限公司)	Import and export trade	Chairman	Overseeing the operation of the company

Mr. Yang graduated from Huainan Mining Institute (淮南礦業學院) (presently known as Anhui University of Science & Technology) with a degree of mine construction (礦井建設專業) in December 1982. He also obtained a master degree of business administration from Nanyang Technological University in May 2010.

Since August 2018, Mr. Yang has become a non-executive director of Mulsanne Group Holdings Limited (stock code: 1817), a PRC fashion menswear company listed on the Main Board on 27 May 2019, and is responsible for providing strategic advice on the business development, operations and management of the listed group.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors *(Continued)*

Mr. ZHOU Kai (周凱先生), aged 47, is our independent non-executive Director. He was appointed as our independent non-executive Director on 16 December 2019. He is responsible for providing independent advice to our Board.

Mr. Zhou has more than 10 years of experience in the area of financial development and regulations. The following table sets forth the working experience of Mr. Zhou:

Period	Name of entity	Principal business activities	Position held	Responsibilities
January 2020 – Present	DeHeng Law Offices (Ningbo) (北京德恒(寧波)律師事務所)	Law firm	Lawyer	Providing legal advices to clients in the area of corporate governance and financial activities
May 2018 – December 2019	Ningbo Zhenhai Rural Commercial Bank Limited (寧波市鎮海農村商業銀行股份有限公司)	Bank	Independent non-executive director	Responsible for governance of the bank
April 2018 – Present	Zhejiang Jinzong Law Firm (浙江金眾律師事務所)	Law firm	Lawyer	Providing legal advices to clients in the area of corporate governance and financial activities
November 2012 – July 2017	The Financial Affairs Office of Ningbo Municipal Government (寧波市人民政府金融工作辦公室)	Government authority	Deputy director	Formulating and organising the implementation of the development plans of the local capital market; supervising the financial activities in the district
December 2008 – November 2012	The Financial Affairs Office of Yinzhou, District Government, Ningbo (寧波市鄞州區人民政府金融工作辦公室)	Government authority	Director	Formulating and organising the implementation of the development plans of the local financial market; supervising the financial activities in the district

Mr. Zhou graduated from Nanjing University (南京大學) with a degree of bachelor of political science in the school of political science and public administration in July 1994. He also obtained a master degree of public administration from The Australian National University in July 2004. Mr. Zhou was admitted as a lawyer in the PRC in June 2000.

Senior Management

Mr. LAU Chung Wai (劉仲緯先生), aged 37, is our chief financial officer and company secretary. Mr. Lau is responsible for overseeing the investment, compliance and financial affairs of our Group.

Mr. Lau has over 15 years of experience in accounting and finance. The following table sets forth the working experience of Mr. Lau:

Period	Name of entity	Principal business activities	Position held	Responsibilities
August 2017 – present	IAG Holdings Limited (stock code: 8513)	Manufacture and sale of injection moulded plastic parts for disposable medical devices and the provision of tooling services	Company secretary	Responsible for the company secretarial matters of the group
August 2015 – March 2019	Da Sen Holdings Group Limited (stock code: 1580)	Manufacture and sale of plywood products and biomass wood pellets	Chief financial officer and company secretary	Overseeing the investment, legal and financial affairs of the group
May 2013 – July 2015	Passion Art International Holdings Limited	Manufacture and sale of furniture and home decoration products	Group financial controller	Responsible for the investment, legal and financial affairs of the group
September 2011 – April 2013	Starcom Worldwide, a subsidiary of Publicis Groupe SA, a company listed on the Euronext Paris (stock code: PUB.PA)	Media agency	Finance manager	Responsible for the financial affairs of the group
September 2004 – September 2011	Ernst & Young	Assurance	Manager of assurance department (last position)	Providing assurance and accounting services to clients

Mr. Lau graduated from the Hong Kong University of Science and Technology with a bachelor of business administration in accounting in November 2004. He was admitted as a certified public accountant of HKICPA in January 2008 and has become a fellow member of HKICPA since May 2015.

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2019.

Principal Activities and Business Review

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 12 to the Group's consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 7 to 14 of this annual report. This discussion forms part of this report of the directors.

Results and Dividends

The Group's profit for the year ended 31 December 2019 and the Group's financial position at that date are set out in the Group's audited financial statements on pages 37 to 97.

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

Summary Financial Information

A summary of the published results, assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements, is set out on page 98 of this annual report. This summary does not form part of the Group's audited consolidated financial statements.

Share Capital

Details of movements in the Company's share capital during the year are set out in note 25 to the Group's consolidated financial statements.

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.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

Distributable Reserves

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2020 Revision) of the Cayman Islands, amounted to approximately RMB163,681,000.

Charitable Contributions

During the year, the Group made charitable contributions totalling RMB400,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 55.7% of the total sales for the year and sales to the largest customer included therein amounted to approximately 16.2%.

Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers.

Directors

The Directors during the year were:

Chairman and executive Director:

Mr. JIN Jianxin

Executive Directors:

Mr. RU Liming
Mr. TIAN Dong (appointed on 13 March 2019)

Non-executive Director:

Mr. SHAO Patrick (appointed on 13 March 2019)

Independent non-executive Directors:

Mr. LAI Chun Yu (appointed on 16 December 2019)
Mr. YANG Herong (appointed on 16 December 2019)
Mr. ZHOU Kai (appointed on 16 December 2019)

Mr. JIN Jianxin and Mr. RU Liming will retire in accordance with article 108(a) of the Articles and Mr. TIAN Dong and Mr. SHAO Patrick will retire in accordance with article 112 of the Articles, and they being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Annual Confirmation of Independence from Independent Non-executive Directors

The Company has received annual confirmations of independence from all independent non-executive Directors regarding each of the factors referred to in rule 3.13 of the Listing Rules. As at the date of this report, the Company still considers all of the independent non-executive Directors to be independent.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 15 to 19 of this annual report.

Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

Directors' remunerations are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Transactions, Arrangements or Contracts

Mr. JIN Jianxin, being an executive Director and a beneficial shareholder of Shaoxing Shi Jingming Cultural Development Co., Ltd. (紹興市景明文化發展有限公司) and Ningbo Kwung's Investment Holdings Co., Ltd. (寧波曠世投資控股有限公司), was interested in a contract for the lease of certain properties to the Group as office and production facilities, and warehouse and showroom. Further details of the transactions undertaken in connection therewith are included in note 33 to the Group's consolidated financial statements.

Save as disclosed above. no Director nor a connected entity of a Director had interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 31 December 2019, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Emolument Policy

The Group had 505 employees in the PRC, Australia and Hong Kong as at 31 December 2019. The total salaries and related costs granted to employees amounted to approximately RMB 54.2 million for the year ended 31 December 2019.

The Group's remuneration policy, bonus and share option scheme determines benefits of employees (including Directors) based on the duties and performance of each individuals. The Group has also participated in the mandatory provident fund retirement benefit scheme in Hong Kong, and the central pension scheme operated by the local municipal government in the PRC. The Group arranges trainings necessary to employees for performing their duties.

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives or rewards to eligible participants who contribute to the Group. Eligible participants of the Scheme include full-time or part-time employee of the Company or any member of the Group, including any executive Director, non-executive Director and independent non-executive Director, adviser and consultant of the Group or any subsidiaries of the Company. The Scheme is effective for a period of ten years commencing on 16 January 2020, after which period no further options may be granted but the provisions of the Scheme shall remain in full force and effect in all other respects and options granted during the life of the Scheme may continue to be exercisable in accordance with their terms of issue.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 40,000,000 Shares. The maximum number of Shares issuable under the Scheme to each eligible participant in the Scheme within any 12-month period is limited to 1% of the Shares in issue as of the date of grant. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial Shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial Shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme. Subject to earlier termination by our Company in general meeting or by our Board, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption. There is no minimum period for which an option must be held before it can be exercised.

The subscription price of a Share in respect of any particular option granted under the Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price will not be less than the highest of: (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Shares trading days immediately preceding the date of grant; and (iii) the nominal value of a Share.

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully paid Shares in issue on the date of issue.

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Contract of Significance

Mr. JIN Jianxin, being a controlling Shareholder and a beneficial shareholder of Shaoxing Shi Jingming Cultural Development Co., Ltd. (紹興市景明文化發展有限公司) and Ningbo Kwung's Investment Holdings Co., Ltd. (寧波曠世投資控股有限公司), was interested in a contract for the lease of certain properties to the Group as office and production facilities, and warehouse and showroom. Further details of the transactions undertaken in connection therewith are included in note 33 to the Group's consolidated financial statements.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2019, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the total number of issued Shares were held by the public as at the date of this report.

Events after the Reporting Period

Details of the significant events of the Group after the reporting period are set out in note 35 to the Group's consolidated financial statements.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by PricewaterhouseCoopers, who shall retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

JIN Jianxin
Chairman

Hong Kong 31 March 2020

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company has applied the principles and complied with the applicable code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules since the Listing Date.

Board of Directors

Board composition

The Board currently comprises seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. As at 31 December 2019 and as at the date of this report, the Board comprises the following Directors:

Executive Directors

Mr. JIN Jianxin *(chairman)*
Mr. RU Liming
Mr. TIAN Dong

Non-executive Director

Mr. SHAO Patrick

Independent non-executive Directors

Mr. LAI Chun Yu
Mr. YANG Herong
Mr. ZHOU Kai

Board meetings and general meetings

There was one meeting held by the Board during the year ended 31 December 2019. The attendance of each Director for the Board meetings held during the year ended 31 December 2019 is set out in the following table:

Directors	Number of Board meetings attended/ Number of Board meetings eligible to attend	General meeting
Executive Directors		
Mr. JIN Jianxin	1/1	N/A
Mr. RU Liming	1/1	N/A
Mr. TIAN Dong	1/1	N/A
Non-executive Director		
Mr. SHAO Patrick	1/1	N/A
Independent non-executive Directors		
Mr. LAI Chun Yu	1/1	N/A
Mr. YANG Herong	1/1	N/A
Mr. ZHOU Kai	1/1	N/A

Board diversity policy

The board diversity policy sets out the objective and approach to achieve and maintain diversity of the Board of the Company.

With the objective of enhancing the effectiveness of the Board and maintaining the high standard of corporate governance, the Company recognises increasing diversity at the Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in a number of aspects, including but not limited to professional experience, gender, age, cultural and education background, knowledge, ethnicity and length of service and any other factors that the Board might consider relevant and applicable from time to time in order to achieve board diversity. These differences will be considered in determining the optimum composition of the Board and, when possible, should be balanced appropriately. All Board appointments will be based on merit and the contribution which the selected candidates will bring to the Board. Candidates will be considered against objective criteria, with due regard for the benefits of the diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to professional experience and qualifications, gender, age, cultural and education background, knowledge, ethnicity, skills, industry experience and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The nomination committee of the Company will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption.

Chairman and chief executive

Pursuant to code provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, 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 our business history, Mr. Jin, being a founder of our Group and a controlling Shareholder, has held the key leadership position of our Group and has been deeply involved in the formulation of corporate strategies and management of the business and operations of our Group since its establishment. Taking into account the consistent leadership within our Group, our Board believes that it is in the best interests of our Group and our Shareholders 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 our Group. Our Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Save as disclosed in this section, our Company has complied with the code provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules.

Roles and responsibilities

The Board is responsible for the leadership and control of the Group, and delegates day-to-day operations to the management team of the Group. The Board provides directions to the management team by laying down strategies and plans, and then oversees the implementation performed by the management team. The Board also timely monitor the Group's operational and financial performance through monthly reports prepared by the management of the Group.

The Board also review the compensation policies, succession planning, internal control system and risk management system regularly through various committees established under the Board.

Code of conduct regarding Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions.

Terms of appointment of non-executive Directors

Mr. SHAO Patrick was appointed as the non-executive Director on 16 December 2019 and such appointment shall continue for an initial fixed term of three years from 16 January 2020, provided that either Mr. SHAO or the Company can at any time terminate such appointment by serving the other party not less than three months' prior notice in writing. Such appointment may be extended for such period as both parties agree in writing. Mr. SHAO is entitled to a remuneration of RMB80,000 per annum.

All independent non-executive Directors was appointed on 16 December 2019 and such appointments shall continue until 31 December 2020, provided that either the independent non-executive Director or the Company can at any time terminate such appointment by serving the other party not less than one month's prior notice in writing. Such appointment may be extended for such period as both parties agree in writing.

Mr. LAI Chun Yu is entitled to a remuneration of HKD180,000 per annum as an independent non-executive Director. Each of Mr. Yang Herong and Mr. ZHOU Kai is entitled to a remuneration of RMB80,000 per annum as an independent non-executive Director.

Nomination Policy

The nomination committee of the Company makes recommendations to the Board on the appointment and re-appointment of Directors, and succession planning for Directors.

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the nomination committee of the Company shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

(a) reputation for integrity;

(b) accomplishment, experience and reputation in the relevant industry and other relevant sectors;

(c) commitment in respect of sufficient time, interest and attention to the Company's business;

(d) diversity in all aspects, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge;

(e) the ability to assist and support management and make significant contributions to the Company's success;

(f) compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an independent non-executive Director; and

(g) any other relevant factors as may be determined by the nomination committee of the Company or the Board from time to time.

Board committees

The Company currently has three committees established under the Board, which are listed as follows:

- Audit committee
- Remuneration committee
- Nomination committee

Audit committee

The role and function of the audit committee of the Company is summarised below:

Relationship with the Company's external auditor

- to make recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- to approve the remuneration and terms of engagement of the external auditor;
- to consider any questions of resignation or dismissal of that auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- To develop and implement policy on engaging an external auditor to supply non-audit services;
- to report to the Board, identifying and making recommendations on any matters where action or improvement is needed; and
- to act as the key representative body for overseeing the Company's relations with the external auditor.

Review of the Company's financial information

- to monitor integrity of the Company's financial statements, annual report, interim report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them; and
- to discuss problems and reservations arising from the interim review, if applicable, and final audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary).

CORPORATE GOVERNANCE REPORT

Oversight of the Company's financial reporting system, risk management and internal control systems

- to review the Company's financial controls, risk management and internal control systems;
- to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;
- to consider major findings from investigations on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- where an internal audit function exists,

  (a) to ensure co-ordination between the internal and external auditors;

  (b) to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and

  (c) to review and monitor its effectiveness.

- to review the Group's financial and accounting policies and practices.
- to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and management's response.
- to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board.
- to report to the Board on the matters in the code provision under Appendix 14 of the Listing Rules.
- to consider any other matters specifically referred to the audit committee by the Board including but not limited to the following:

  (a) to review the internal controls and risk management systems of the Company, including the internal controls on bank account management and the monitoring of bank transactions on a quarterly basis in order to detect and prevent improper bank activities and transactions;

  (b) to review the report on bank account activities, material bank transactions and all incoming wire transfers on a quarterly basis to detect irregularities;

  (c) to report irregularities (if any) to the Board immediately;

  (d) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action; and

  (e) to review the findings of the Company's internal audit division from time to time.

The audit committee is currently chaired by Mr. LAI Chun Yu and the other members of the audit committee are Mr. YANG Herong and Mr. ZHOU Kai. All members of the audit committee are independent non-executive Directors.

No audit committee meeting was held during the year ended 31 December 2019 as the audit committee was only established on 16 December 2019 and the functions of the audit committee only became effective upon the successful listing of the shares of the Company on 16 January 2020.

Remuneration committee

The role and function of the remuneration committee of the Company is summarised below:

- to establish and review the Company's policy and structure of the remuneration for Directors and senior management and make recommendations to the Board on the establishment of a formal and transparent procedure for developing remuneration policy;

- to determine, with delegated responsibility, the specific remuneration packages of executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, or to make recommendations to the Board on the remuneration packages of executive Directors and senior management;

- to make recommendations to the Board on employee benefit arrangement;

- to make recommendations to the Board on the remuneration of non-executive Directors;

- to consider factors such as salaries paid by comparable companies, time commitment and responsibilities, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

- to review and approve the management's remuneration proposals by reference to corporate goals and objectives resolved by the Board from time to time;

- to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

- to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration and that, as regards the remuneration of a non-executive Director who is a member of the Committee, his/her remuneration should be determined by the other members of the Committee; and

- to advise shareholders of the Company with respect to any service contracts of Directors that require shareholders' approval under the Listing Rules.

The remuneration committee is currently chaired by Mr. ZHOU Kai and the other members of the remuneration committee are Mr. JIN Jianxin and Mr. LAI Chun Yu. The remuneration committee is chaired by an independent non-executive Director and comprises a majority of independent non-executive Directors.

No remuneration committee meeting was held during the year ended 31 December 2019 as the remuneration committee was only established on 16 December 2019 and the functions of the remuneration committee only became effective upon the successful listing of the shares of the Company on 16 January 2020.

CORPORATE GOVERNANCE REPORT

Nomination committee

The role and function of the nomination committee of the Company is summarised below:

- to review the structure, size, composition and diversity (including but not limited to the skills, knowledge, gender, age, ethnicity, cultural and educational background, professional experience and length of services) of the Board at least annually and to make recommendations to the Board regarding any proposed changes to the Board to complement the corporate strategy of the Company;

- to identify individuals suitably qualified to become Board members and to select or make recommendations to the Board on the selection of, individuals for nomination of directorships of the Company;

- to assess the independence of independent non-executive Directors;

- to advise the Board on the following issues on the selection of an individual to be nominated as an independent non-executive Director:

  (a) the process used for identifying the individual and why the individual should be elected and the reasons why it considers the individual to be independent;

  (b) if the proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, why the individual would still be able to devote sufficient time to the Board;

  (c) the perspectives, skills and experience that the individual can bring to the Board; and

  (d) how the individual contributes to diversity of the Board.

- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment or removal of directors of the Company and succession planning for directors in particular the chairman and the chief executive officer of the Company;

- to implement and review the Board diversity policy of the Company (the "Board Diversity Policy"); recommend any revisions of the Board Diversity Policy to the Board; review the measurable objectives that the Board has set for implementing the Board Diversity Policy, and the progress on achieving the objectives;

- disclose the Board Diversity Policy or a summary of such policy, in particular, the measurable objectives that it has set for implementing the Board Diversity Policy and the progress on achieving these objectives and its review results in the Company's corporate governance report annually; and

- to review and disclose the policy for nomination of directors implemented, as appropriate, and a summary of the work during the year in the Company's corporate governance report annually.

The nomination committee is currently chaired by Mr. YANG Herong and the other members of the nomination committee are Mr. JIN Jianxin and Mr. LAI Chun Yu. The nomination committee is chaired by an independent non-executive Director.

No nomination committee meeting was held during the year ended 31 December 2019 as the nomination committee was only established on 16 December 2019 and the functions of the nomination committee only became effective upon the successful listing of the shares of the Company on 16 January 2020.

Auditor's Remuneration

PricewaterhouseCoopers has been appointed as the auditor of the Company in respect of the audit of the consolidated financial statements of the Company for the year ended 31 December 2019. In addition, PricewaterhouseCoopers was engaged as the Company's reporting accountant in relation to the initial public offering of the Shares. No non-audit services have been provided by PricewaterhouseCoopers to the Group during the year ended 31 December 2019.

An analysis of the fees paid or payable to PricewaterhouseCoopers in relation to services rendered to the Group for the year ended 31 December 2019 is as follows:

	RMB '000
Audit services	1,150
Non-audit services	–
	1,150

Dividend Policy

The Board may consider declaring and paying dividends to the Shareholders by taking into account the factors set out below. Such declaration and payment of dividends by the Company shall remain to be determined at the sole discretion of the Board and subject to the requirements under all applicable laws, rules and regulations as well as the Articles.

When considering whether to declare any dividends and determining the dividend amount, the Board shall take into consideration, inter alia, the following factors:

(a) results of operation,

(b) cash flows,

(c) financial condition,

(d) future business prospects;

(e) statutory and contractual restrictions on the payment of dividends; and

(f) any other factors that the Board may deem appropriate.

The Board may propose the payment of dividends, if any, with respect to the Company's Shares on a per share basis.

Depending on the financial conditions of the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that appear to the Board to be justified by the profits of the Company available for distribution. Except in the case of interim dividend, any dividends declared by the Company must be approved by an ordinary resolution of shareholders at an annual general meeting and must not exceed the amount recommended by the Board.

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate, subject to and in accordance with the procedures set out in the Articles.

The Company will continually review the dividend policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the policy at any time. The policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and in no way obligate the Company to declare a dividend at any time or from time to time.

Shareholders' Rights

Shareholders can at any time raise enquiries to the Board. The enquiries must be in writing with contact information of the Shareholder(s) and deposited at the principal place of business of Company in Hong Kong at Unit 629A, 6th Floor, Star House, No. 3 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong for the attention of the company secretary of the Company.

In addition, any one or more duly registered holder of the Shares holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Constitutional Documents

There is no significant changes in the constitutional documents of the Company during the year ended 31 December 2019.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board acknowledges that such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that it has conducted a review of the risk management and internal control systems of the Group during the year ended 31 December 2019. The Group currently has no internal audit function and such review was performed by an independent third party engaged by the Group. The Board considers that it is more cost effective to engage an independent third party instead of recruiting a team of an internal audit staff to perform such annual review function. The Board will consider to set up an internal audit function in the foreseeable future when the business size of the Group grows larger.

The Board concludes, based on the result of the review, that the risk management and internal control systems currently in place are adequate and effective. The Board expects that a review of the risk management and internal control systems will be performed annually.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Kwung's Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Kwung's Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 37 to 97, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

Key Audit Matters *(Continued)*

A key audit matter related to revenue recognition on sales of goods is identified in our audit as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition – sales of goods	
Refer to Note 2.20 and Note 6 to the consolidated financial statements. Revenue of the Group for the year ended 31 December 2019 is RMB501 million. The Group's major revenue transactions are from export sales of goods. Revenue is recognised when control of the underlying products has transferred to the customers. We focus on revenue from sales of goods due to the high volume of sales, and thus significant audit time and resources were devoted in this area.	We understood, evaluated and tested on a sample basis, management's key controls over revenue recognition in respect of the Group's sales transactions, from approval of customer orders, all the way to settlement of trade receivables. We conducted testing of sales transactions on a sample basis by examining the relevant supporting documents, including sales invoices, shipping documents, Customs declaration forms and cash collections. We performed confirmation procedures on selected customers' receivable balances at the balance sheet date and on selected customers' sales transaction amounts during the year. We tested sales transactions that took place before and after the balance sheet date to assess whether the transactions were recognised in the appropriate reporting period based on the supporting documents obtained. Based on our work performed, we found the sales transactions tested were supported by the relevant evidence that we gathered.

Other Information

The directors of the Company are responsible for the other information set out in the Company's 2019 Annual Report. The other information comprises the information included in definition, corporate information, directors and senior management, report of the directors and corporate governance report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the chairman's statement, management discussion and analysis and summary financial information, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

pwc 羅兵咸永道

Other Information *(Continued)*

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the chairman's statement, management discussion and analysis and summary financial information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

pwc 羅兵咸永道

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mang, Kwong Fung Frederick.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	6	**501,131**	444,704
Cost of sales	6,7	**(367,452)**	(337,675)
Gross profit		**133,679**	107,029
Administrative expenses	7	**(70,311)**	(47,766)
Selling and marketing expenses	7	**(8,574)**	(6,910)
Net impairment losses on financial assets	21,22	**(662)**	(228)
Other income	9	**1,919**	5,871
Other (losses)/gains – net	10	**(23,088)**	30,885
Operating profit		**32,963**	88,881
Finance income		**119**	88
Finance costs		**(514)**	(161)
Finance costs – net	11	**(395)**	(73)
Profit before income tax		**32,568**	88,808
Income tax expense	13	**(4,758)**	(11,757)
Profit for the year		**27,810**	77,051
Profit attributable to:			
– Owners of the Company		**27,820**	77,010
– Non-controlling interests		**(10)**	41
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
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 (expressed in RMB per share)			
– Basic and diluted	14	**9.3 cents**	25.7 cents

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		As at 31 December	
		2019	2018
	Note	**RMB'000**	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*15*	**48,278**	31,354
Investment properties	*16*	**–**	–
Right-of-use assets	*18*	**16,720**	13,223
Intangible assets	*17*	**3,504**	2,525
Deferred income tax assets	*29*	**3,043**	1,138
Total non-current assets		**71,545**	48,240
Current assets			
Inventories	*20*	**42,671**	39,261
Trade receivables	*21*	**64,920**	64,330
Prepayments, deposits and other receivables	*22*	**27,566**	164,746
Financial assets at fair value through profit or loss	*23*	**–**	1,530
Cash and cash equivalents	*24*	**67,843**	92,611
Total current assets		**203,000**	362,478
Total assets		**274,545**	410,718
Equity			
Equity attributable to owners of the Company			
Share capital	*25*	**–**	–
Share premium	*25*	**163,681**	163,681
Other reserves	*26*	**(34,556)**	(39,513)
Retained earnings		**68,957**	46,087
		198,082	170,255
Non-controlling interests		**638**	646
Total equity		**198,720**	170,901

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Liabilities			
Current liabilities			
Trade and other payables	*27*	**46,815**	222,159
Contract liabilities	*6*	**4,054**	2,428
Current income tax liabilities		**950**	6,745
Financial liabilities at fair value through profit or loss	*23*	**14,472**	3,069
Lease liabilities	*28*	**3,863**	1,870
Total current liabilities		**70,154**	236,271
Non-current liabilities			
Lease liabilities	*28*	**5,671**	3,546
Total liabilities		**75,825**	239,817
Total equity and liabilities		**274,545**	410,718

The above consolidated statement of financial position should be read in conjunction with the accompanying notes to the consolidated financial statements.

The financial statements on pages 37 to 97 were approved by the board of directors of the Company on 31 March 2020 and were signed on its behalf by:

JIN Jianxin
Executive director

TIAN Dong
Executive director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019		–	163,681	(39,513)	46,087	170,255	646	170,901
Comprehensive income								
Profit/(loss) for the year		–	–	–	27,820	27,820	(10)	27,810
Exchange differences on translation of foreign operations	*26*	–	–	7	–	7	2	9
		–	–	7	27,820	27,827	(8)	27,819
Transactions with owners in their capacity as owners								
Appropriation to statutory reserves	*26(a)*	–	–	4,950	(4,950)	–	–	–
Balance at 31 December 2019		–	163,681	(34,556)	68,957	198,082	638	198,720

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018		–	–	116,902	81,294	198,196	593	198,789
Comprehensive income								
Profit for the year		–	–	–	77,010	77,010	41	77,051
Exchange differences on translation of foreign operations	*26*	–	–	49	–	49	12	61
		–	–	49	77,010	77,059	53	77,112
Transactions with owners in their capacity as owners								
Issuance of ordinary shares	*25*	–	163,681	–	–	163,681	–	163,681
Deemed distribution to then shareholders of Ningbo Kwung's	*26(b)*	–	–	(163,681)	–	(163,681)	–	(163,681)
Appropriation to statutory reserves	*26(a)*	–	–	7,217	(7,217)	–	–	–
Dividends paid by a subsidiary	*30*	–	–	–	(105,000)	(105,000)	–	(105,000)
		–	163,681	(156,464)	(112,217)	(105,000)	–	(105,000)
Balance at 31 December 2018		–	163,681	(39,513)	46,087	170,255	646	170,901

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	*31(a)*	**33,814**	26,246
Interest received		**119**	88
Income tax paid		**(12,465)**	(5,209)
Net cash generated from operating activities		**21,468**	21,125
Cash flows from investing activities			
Purchases of property, plant and equipment		**(19,818)**	(7,051)
Proceeds from disposal of subsidiaries	*31(b)*	**28,970**	59,545
Deemed distribution	*26(b)*	**(163,681)**	–
Purchases of intangible assets		**(2,198)**	(711)
Payments for purchase of wealth management products issued by commercial banks		**–**	(142,364)
Proceeds from disposal of wealth management products issued by commercial banks		**–**	142,364
Proceeds from disposal of property, plant and equipment	*31(c)*	**18**	10
Net cash (used in)/generated from investing activities		**(156,709)**	51,793
Cash flows from financing activities			
Proceeds from bank borrowings		**20,000**	–
Repayments of bank borrowings		**(20,000)**	–
Loans from a related party	*33(b)*	**6,861**	–
Repayments of loans from a related party	*33(b)*	**(6,592)**	–
Interest paid		**(515)**	(161)
Capital contribution from the owners of the Company	*25*	**114,632**	49,048
Payments for listing expenses		**(2,675)**	(967)
Principal elements of lease payments		**(1,870)**	(819)
Dividends paid by a subsidiary	*30*	**–**	(105,000)
Net cash generated from/(used in) financing activities		**109,841**	(57,899)
Net (decrease)/increase in cash and cash equivalents		**(25,400)**	15,019
Cash and cash equivalents at beginning of the year		**92,611**	74,400
Effect of foreign exchange rate changes		**632**	3,192
Cash and cash equivalents at end of the year		**67,843**	92,611

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 General Information

Kwung's Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 November 2018 as an exempted company with limited liability under the Companies Law (Cap.22, law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in design and manufacturing of home fragrance related products in the People's Republic of China (the "PRC"), distributing the products to overseas and in the PRC. The ultimate controlling company is King Harmony Limited. The ultimate controlling shareholder of the Group is Mr. Jin Jianxin ("Mr. Jin" or the "Ultimate Controlling Shareholder").

To prepare for the initial listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group has undertaken a reorganisation (the "Reorganisation") pursuant to which the Company became the holding company of the subsidiaries comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 30 December 2019.

The Company's shares began to list on the Stock Exchange on 16 January 2020.

These consolidated financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated.

2 Summary of Significant Accounting Policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 preparation of 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Changes in accounting policies

(i) New standards, amendments and interpretations of HKFRSs adopted by the Group

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 from1 January 2016 to 30 June 2019 in connection with the initial public offering of the Company and for the year ended 31 December 2019.

(ii) New standard and amendments of HKFRSs not yet adopted by the Group

A number of new standard and amendments of HKFRSs had been issued but are 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 financial position of the Group is expected when they become effective.

2 Summary of Significant Accounting Policies *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired, except for the Reorganisation as described in Note 1 which was regarded as merely to enable the Group to continue the listing business and was therefore accounted for using the predecessor values. Under the acquisition method of accounting, the consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2 Summary of Significant Accounting Policies *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(b) Changes in ownership interests in subsidiaries without change of control

Transaction with non-controlling interests that do not result in loss of control are accounted for as equity transaction – that is, as transactions with the owners of the subsidiary in their capacity as owners, The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Investments in subsidiaries are also assessed for impairment in accordance with Note 2.8 and written down to their recoverable amounts.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 Summary of Significant Accounting Policies *(Continued)*

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised within "Other gains/(losses) – net" in the consolidated statement of comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) *Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2 Summary of Significant Accounting Policies *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values, over their estimated useful lives as follows:

	Estimated useful lives
Buildings	5~30 years
Transportation equipment	5 years
Electronic equipment	3~5 years
Machinery	5~10 years
Furniture	5 years
Leasehold improvements	Shorter of the unexpired term of lease and their estimated useful lives

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other (losses)/gains – net" in the consolidated statement of comprehensive income.

2.6 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are also carried at cost less accumulated depreciation and impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 Summary of Significant Accounting Policies *(Continued)*

2.7 Intangible assets

(a) Patent

Patent is shown at historical cost. It has a finite useful life of 5 to 10 years and is subsequently carried at cost less accumulated amortisation and impairment losses.

When determining the length of useful life of a patent, the Group takes into account the estimated period during which such asset can bring economic benefits to the Group.

(b) Software

Acquired software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 to 10 years.

Considering the acquired software are well-developed, off the shelf software with no contractual terms, and the Group can use the software as long as it can meet the Group's business needs, based on the current functionalities equipped by the software and the daily operation needs, the Group considers a useful life of 5-10 years is the best estimation under current business needs.

2.8 Impairment of non-financial assets

Goodwill is not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 Summary of Significant Accounting Policies *(Continued)*

2.9 Financial assets *(Continued)*

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss of the consolidated statement of comprehensive income.

- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in profit or loss of the consolidated statement of comprehensive income.

- Fair value through profit or loss ("FVPL"): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) within profit or loss of the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 Summary of Significant Accounting Policies *(Continued)*

2.9 Financial assets *(Continued)*

(iv) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt instrument carried at amortised cost and financial assets at fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1.1 details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the relevant company or the counterparty.

2.11 Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and banks, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 Summary of Significant Accounting Policies *(Continued)*

2.15 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Derivative financial instruments

The Group does not have any derivative financial instruments that qualify for hedge accounting.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of any derivative financial instruments are recognised immediately in the profit or loss, except where the derivative financial instruments are qualified for hedge accounting.

2.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries/regions where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the taxable entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 Summary of Significant Accounting Policies *(Continued)*

2.18 Employee benefits

(i) Pension obligations

The Group only operates defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the governments.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(ii) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plans. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the relevant Group entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.19 Provisions

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 Summary of Significant Accounting Policies *(Continued)*

2.20 Revenue recognition

(i) Sale of goods – wholesale

The Group manufactures and sells a range of candles, home fragrance and home accessories in the wholesale market. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products are sold with retrospective volume rebates based on aggregate sales over a 12 months period to certain customers. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the rebates, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The revenue from these sales are normally billable immediately upon the delivery of the products. No element of financing is deemed present as the sales are made with no credit term, which is consistent with market practice. The Group's obligation to replace faulty products under the standard warranty terms is assessed and recognised as a provision.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(ii) Sale of goods – retail

The Group operates some stores selling candles, home fragrance and home accessories. Revenue from the sale of goods is recognised when a Group entity sells a product to the customer.

Payment of the transaction price is due immediately when the customer purchases the products and takes delivery in store. It is the Group's policy to sell its products to the end customer with a right of return within 7 days. Therefore, a refund liability (included in trade and other payables) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

(iii) Accounting for costs to fulfil a contract

As the transportation activities occur before the customer obtains control of related products, they are not separate performance obligation, therefore, related costs are contract fulfil costs which are capitalised as assets according to HKFRS 15. These assets are amortised on a systematic basis that is consistent with the transfer to the customer of the goods to which the assets relate. Related assets are not material at the balance sheet date due to the short period of transportation and are charged into the cost of sales directly as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 Summary of Significant Accounting Policies *(Continued)*

2.20 Revenue recognition *(Continued)*

(iv) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(v) Assets recognised from incremental costs to obtain a contract

The Group applies the practical expedient in paragraph 94 of HKFRS 15 and recognises the incremental costs of obtaining contracts such as sales commissions as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

2.21 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account: the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.22 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2 Summary of Significant Accounting Policies *(Continued)*

2.23 Leases

(i) The Group is the lessee

The Group leases properties and land use rights in the PRC as lessee. Rental contracts of properties are typically made annually on a recurring basis but may have extension options as described below. The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC and the lease term is 50 years, which is included in right-of-use assets.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated or amortised over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liabilities;
- Any lease payments made at or before the commencement date, less any lease incentive received;
- Any initial direct costs; and
- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss of the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

2 Summary of Significant Accounting Policies *(Continued)*

2.23 Leases *(Continued)*

(i) The Group is the lessee (Continued)

Extension options are only included in the lease term if the lease is reasonably certain to be extended. The Group determines the lease term as the non-cancellable period of a lease, together with both:

- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

(ii) The Group is the lessor

When assets are leased out under operating lease, the assets are included in the consolidated statement of financial position based on the nature of the assets. Rental income is recognised in profit or loss of the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are recorded as deferred income and recognised in profit or loss of the consolidated statement of comprehensive income on a systemic basis over the useful lives of the assets. Government grants to compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss when related costs incurred. Government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss directly in current period. The Group applies the presentation method consistently to similar government grants in the financial statements.

3 Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and foreign exchange risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3.1.1 Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost, FVPL, derivative financial assets and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

(i) Cash in banks

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

3 Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.1 Credit risk (Continued)

(ii) Trade receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss also incorporate forward looking information.

(iii) Other receivables

Other receivables at the end of each reporting period were mainly deposits, advances to employees and the amounts due from related parties. The directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- Internal credit rating;
- External credit rating;
- Actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the counterparty;
- Significant changes in the expected performance and behaviour of the counterparty;
- The employment relationship with the employee debtor.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categories a loan or receivable for write off when a debtor fails to make contractual payments/repayable demanded greater than 180 days past due. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss of the consolidated statement of comprehensive income.

Since the advances to employees and amounts due from related parties had no historical default, at each reporting period end, the expected losses of the advances to employees and amounts due from related parties are measured on a 12-month basis.

The directors of the Company believe that there was no material credit risk inherent in the Group's outstanding balance of other receivables.

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For the year ended 31 December 2019

3 Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.1 Credit risk (Continued)

(iv) Forward-looking information incorporated in the expected credit loss model

The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information. The Group has identified key factors such as the gross domestic product ("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.

As at 31 December 2019 and 2018, the loss allowance provision were determined as follows:

Trade receivables

	As at 31 December 2019 RMB'000			As at 31 December 2018 RMB'000		
	Expected loss rate	**Gross carrying amount**	**Loss allowance provision**	Expected loss rate	Gross carrying amount	Loss allowance provision
Within 30 days	**0.08%**	**37,034**	**29**	0.11%	24,129	26
31 to 180 days	**0.17%**	**26,799**	**45**	0.22%	39,843	89
181 days to 1 year	**22.77%**	**1,296**	**294**	28.31%	630	178
1 to 2 years	**77.47%**	**708**	**549**	83.60%	131	110
2 to 3 years	**100.00%**	**–**	**–**	100.00%	50	50
Over 3 years	**100.00%**	**40**	**40**	100.00%	–	–
		65,877	**957**		64,783	453

Prepayments and other receivables (excluding prepaid income tax, prepaid value added tax, and recoverable value added tax)

	Expected loss rate	Basis for recognition of expected credit loss provision	**As at 31 December 2019 RMB'000 Gross carrying amount**	**Loss allowance provision**	As at 31 December 2018 RMB'000 Gross carrying amount	Loss allowance provision
Deposits	10%	12 months expected losses	**513**	**52**	29	3
Advances to employees	10%	12 months expected losses	**650**	**65**	482	48
Amounts due from related parties	0.1%	12 months expected losses	**468**	**–**	143,652	–
Others	10%	12 months expected losses	**911**	**92**	–	–
			2,542	**209**	144,163	51

Since the actual loss rate for each type of the prepayments and other receivables and the adjustments for forward looking macro-economic data did not have significant changes during the years ended 31 December 2019 and 2018, the directors of the Company consider that the changes in the expected credit loss rate, if any, for provision matrix are insignificant during the years ended 31 December 2019 and 2018.

3 Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Liquidity risk

Management aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financing, including loans from related parties to meet its daily operation working capital requirements.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

(a) all non-derivative financial liabilities, and

(b) net settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

The Group's derivative financial instruments with a negative fair value was included at their fair value of RMB14,472,000 as at 31 December 2019 (31 December 2018: RMB3,069,000) within the less than 12 month time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net fair value basis rather than by maturity date.

	Less than 1 year RMB'000	Ove 1 year RMB'000
Non-derivatives		
As at 31 December 2019		
Trade and other payables	**31,172**	**999**
Lease liabilities	**3,863**	**5,671**
	35,035	**6,670**
As at 31 December 2018		
Trade and other payables	206,468	–
Lease liabilities	1,870	3,546
	208,338	3,546
Derivatives		
As at 31 December 2019		
Derivative financial instruments	**14,472**	**–**
As at 31 December 2018		
Derivative financial instruments	3,069	–

Trade and other payables here exclude non-financial liabilities of accrued payroll and other taxes payable.

3 Financial Risk Management *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.3 Foreign exchange risk

The Group sells products internationally and is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US$. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant Group entity.

The Group also entered into foreign currency forwards in relation to products sales for the next 12 months that do not qualify as 'highly probable' forecast transactions and hence do not satisfy the requirements for hedge accounting (economic hedges). The foreign currency forwards are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as derivative financial instruments with gains/(losses) recognised in profit or loss of the consolidated statement of comprehensive income.

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to foreign exchange risk based on the assumption that US$ had strengthened/weakened by 10% against RMB with all other variables held constant:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
RMB/US$ exchange rate – increase 10%	**4,642**	4,892
RMB/US$ exchange rate – decrease 10%	**(4,642)**	(4,892)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

As at 31 December 2019 and 2018, the Group maintained at net cash position.

3 Financial Risk Management *(Continued)*

3.3 Fair value estimation

(i) Fair value hierarchy of financial assets and financial liabilities

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements

	Note	**Level 1** RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
At 31 December 2019					
Financial liabilities					
Foreign currency forwards	23	**–**	**14,472**	**–**	**14,472**
At 31 December 2018					
Financial assets					
USD:RMB fixed-fixed cross-currency interest rate swap	23	–	1,530	–	1,530
Financial liabilities					
Foreign currency forwards	23	–	3,069	–	3,069

There were no transfers among level 1, level 2 and level 3 for recurring fair value measurements during the years ended 31 December 2019 and 2018.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

3 Financial Risk Management *(Continued)*

3.3 Fair value estimation *(Continued)*

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- for USD:RMB fixed-fixed cross-currency interest rate swap – present value of estimated future cash flows based on observable yield curves
- for foreign currency forwards – based on forward exchange rates at the end of the reporting period
- other techniques, such as discounted cash flow analysis

There were no changes in valuation techniques during the years ended 31 December 2019 and 2018.

4 Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Allowance on doubtful receivables

The Group makes allowances on receivables based on assumptions about risk of default and expected loss rates. The Group used judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

(b) Current and deferred income tax

The Group is subject to corporate income taxes in the PRC. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilisation may be different.

5 Segment Information

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in the design, manufacture and processing of wax products, metal products, glass products and aromatherapy products. The CODM reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM regards that there is only one segment which is used to make strategic decisions.

As at 31 December 2019 and 2018, all of the non-current assets of the Group were located in the PRC.

Revenue from external parties contributed 10% or more of the total revenue of the Group is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Customer A	**81,361**	77,484
Customer B	**60,582**	*
Customer C	**58,661**	46,819
Customer D	**53,287**	*

* represents the amount of revenue from such customer which is less than 10% of the total revenue of that year.

6 Revenue and Cost of Sales

Revenue mainly comprises of proceeds from export sales of goods. An analysis of the Group's revenue and cost of sales by product type is as follows:

	Year ended 31 December			
	2019		2018	
	RMB'000		RMB'000	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Revenue from customers:				
Candles	**318,808**	**(233,880)**	311,038	(236,457)
Home fragrance	**91,150**	**(61,160)**	64,964	(46,525)
Home accessories	**91,173**	**(72,412)**	68,702	(54,693)
	501,131	**(367,452)**	444,704	(337,675)
Timing of revenue recognition				
– At a point in time	**501,131**		444,704	

6 Revenue and Cost of Sales *(Continued)*

(a) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Advanced payments from customers	**4,054**	2,428

(b) Significant change in contract liabilities

Contract liabilities of the Group mainly arise from the advanced payments made by customers while the underlying goods are yet to be delivered. Such liabilities increased as a result of the growth of the Group's business.

(c) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised during the years ended 31 December 2019 and 2018 related to carried-forward contract liabilities.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Advanced payments from customers	**2,428**	1,829

(d) Unsatisfied performance obligations

The Group applies the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(e) Assets recognised from incremental costs to obtain a contract

Contract obtaining costs incurred related to contracts such as sales commissions with an amortisation period of one year or less have been expensed as incurred.

7 Expenses by Nature

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials and consumables used	**150,403**	151,690
Subcontracting costs	**182,704**	155,816
Employee benefit expenses *(Note 8)*	**54,165**	43,748
Transportation expenses	**15,336**	11,640
Utilities	**3,195**	4,083
Depreciation of property, plant and equipment *(Note 15)*	**3,638**	3,244
Depreciation of investment properties *(Note 16)*	**–**	1,199
Amortisation of intangible assets *(Note 17)*	**419**	362
Amortisation and depreciation of right-of-use assets *(Note 18)*	**2,444**	1,452
Taxes and surcharges	**3,299**	4,216
Travelling expenses	**2,031**	1,335
Operating lease expenses on short-term leases	**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

Listing expenses for 2019 include auditor's remuneration of approximately RMB2.6 million (2018: RMB0.9 million) for their listing services as reporting accountant.

In addition to the above, an amount of approximately RMB1.2 million for auditor's listing services was deferred and charged to share premium account upon listing of the Company in January 2020. There was no amount incurred for non-audit services of auditor for both 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

8 Employee Benefit Expenses

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	**44,185**	31,869
Pension costs *(Note a)*	**4,992**	6,661
Housing funds, medical insurances and other social insurances *(Note b)*	**4,065**	4,290
Other employee benefits	**923**	928
	54,165	43,748

Note a: As stipulated by the rules and regulations in the PRC, the subsidiaries operating in the PRC contribute to state-sponsored retirement plans for their respective employees. The employees contribute approximately 8% of their basic salaries, while the subsidiaries contribute approximately 13–14% of the basic salaries of their respective employees and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees.

Note b: Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plans. The Group contributes on a monthly basis to these funds based on approximately 25.4% of the salaries of the employees, subject to certain ceilings. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(a) Five highest paid individuals

For the year ended 31 December 2019, the five individuals whose emoluments were the highest in the Group included 2 (2018: 2) director whose emoluments are reflected in the analysis shown in Note 34. The emoluments payable to the remaining 3 (2018: 3) individuals are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	**1,222**	892
Pension costs	**171**	125
Housing funds, medical insurances and other social insurances	**133**	97
	1,526	1,114

The emoluments fell within the following band:

	Number of individuals Year ended 31 December	
	2019	2018
Nil – HK$ 500,000	**3**	3

9 Other Income

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Rental income	**–**	3,370
Government grants	**1,919**	2,501
– relating to financial support	**1,919**	2,499
– relating to tax refund	**–**	2
	1,919	5,871

Government grants were mainly unconditional government subsidies received by the Group from relevant government bodies.

10 Other (Losses)/Gains – Net

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
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 realised and unrealised fair value losses on foreign exchange forward contracts	**(27,559)**	(17,204)
Net fair value gains on wealth management products issued by commercial banks	**–**	387
Net gains on disposal of a subsidiary *(Note 12)*	**–**	42,491
Donation expenses	**(400)**	(300)
Others	**(612)**	(497)
	(23,088)	30,885

11 Finance Costs – Net

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

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For the year ended 31 December 2019

12 Subsidiaries

The Group's subsidiaries at 31 December 2019 and 2018 and as at the date of issue of these financial statements are set out below. Unless otherwise stated, they have share capital held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

Names of the subsidiaries	Place and date of incorporation/ establishment	Issued capital	Attributable equity interest of the Group 31 December		Attributable equity interest of the Group as at the date of issue of these financial statements	Principal activities/ place of operation
			2019	2018	%	
Kwung's Investments Limited	BVI 15 November 2018	US$1	**100.00%**	100.00%	100.00%	Intermediate holding company
Kwung's Wisdom (Hong Kong) Co., Limited ("Kwung's HK")	Hong Kong 27 November 2018	HK$1	**100.00%**	100.00%	100.00%	Intermediate holding company
Ningbo Kwung's	PRC 4 January 1999	RMB70,000,000	**100.00%**	100.00%	100.00%	Design, manufacture and processing; Wholesale and retail company
Ningbo Koman Import and Export Co., Ltd. 寧波苛曼進出口有限公司	PRC 16 August 2012	RMB1,500,000	**100.00%**	100.00%	100.00%	Import or export of self-manufactured or agent goods and technology
Ningbo Aromage Homeware Co., Ltd. 寧波香薰時代家居用品有限公司	PRC 11 August 2014	RMB1,000,000	**–**	100.00%	–	Wholesale and retail of household items, handicrafts
Neobee Australia Pty Limited	Australia 29 June 2016	AUD240,000	**80.00%**	80.00%	80.00%	Trading company
Shaoxing Shi Keyuan Arts and Crafts Co., Ltd. 紹興市苛源工藝品有限公司	PRC 17 September 2018	RMB20,000,000	**100.00%**	100.00%	100.00%	Design, manufacture and processing of wax products
Shaoxing Shi Jingming Cultural Development Co., Ltd. ("Shaoxing Jingming") 紹興市景明文化發展有限公司 *(Note 3)*	PRC 20 December 2005	RMB 1,080,000	**–**	–	–	Design, manufacture and processing of wax products
Ningbo Fenyuan Aromatherapy Products Co., Ltd. ("Ningbo Fenyuan") 寧波芬緣香薰製品有限公司 *(Note 1)*	PRC 7 January 2019	RMB1,000,000	**100.00%**	N/A	100.00%	Design, manufacture and processing of wax products, metal products and glass products

12 Subsidiaries *(Continued)*

Names of the subsidiaries	Place and date of incorporation/ establishment	Issued capital	Attributable equity interest of the Group 31 December		Attributable equity interest of the Group as at the date of issue of these financial statements	Principal activities/ place of operation
			2019	2018	%	
Hangzhou Aromage Homeware Co., Ltd. 杭州香薰時代家居用品有限公司 *(Note 2)*	PRC 21 May 2019	RMB 500,000	**100.00%**	N/A	100.00%	Wholesale and retail of household items, handicrafts
Beijing Aromage Homeware Co., Ltd. 北京香薰時代家居用品有限公司 *(Note 2)*	PRC 6 November 2019	RMB 500,000	**100.00%**	N/A	100.00%	Wholesale and retail of household items, handicrafts
Wuxi Aromage Homeware Co., Ltd. 無錫香薰時代家居用品有限公司 *(Note 2)*	PRC 22 November 2019	RMB 500,000	**100.00%**	N/A	100.00%	Wholesale and retail of household items, handicrafts
Taizhou Aromage Homeware Co., Ltd. 台洲香薰時代家居用品有限公司 *(Note 2)*	PRC 16 December 2019	RMB 500,000	**100.00%**	N/A	100.00%	Wholesale and retail of household items, handicrafts

Note 1: Ningbo Fenyuan was established in the PRC in 2019 as a wholly-owned subsidiary of Kwung's HK.

Note 2: Hangzhou Aromage Homeware Co., Ltd., Beijing Aromage Homeware Co., Ltd., Wuxi Aromage Homeware Co., Ltd. and Taizhou Aromage Homeware Co., Ltd. were established in 2019 as wholly-owned subsidiaries of Ningbo Aromage Homeware Co., Ltd..

Note 3: Ningbo Kwung's and Ningbo Fenyuan are registered as wholly foreign owned enterprises under PRC law. All the other subsidiaries established in the PRC are either directly or indirectly held by Ningbo Kwung's and registered as domestic companies under PRC law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12 Subsidiaries *(Continued)*

Note 3: The Group disposed Shaoxing Jingming with material gain as below:

Disposal of a subsidiary

	Year ended 31 December 2018 RMB'000 *(Note a)*
Total disposal consideration	105,071
Total net assets/(liabilities) disposed of	62,580
– Property, plant and equipment	8,583
– Right-of-use assets	9,310
– Investment properties	21,720
– Other assets	2,808
– Amount due from Ningbo Kwung's	9,366
– Cash and cash equivalents	16,556
– Total liabilities	(5,763)
Gain on disposal	42,491

Note a: Ningbo Kwung's transferred 98% of its equity interest in Shaoxing Jingming to Ningbo Kwung's Investment Holdings Co., Ltd. ("Ningbo Investment"), a company controlled by Mr. Jin, and 2% of its equity interest in Shaoxing Jingming to Mr. Jin at a consideration of RMB102,970,000 and RMB2,101,000 respectively.

The property, plant and equipment, right-of-use assets and investment properties disposed of from the Group represented some idle buildings and investment properties for rental that were not related to the listing business.

13 Income Tax Expense

The amounts of income tax expense charged to profit or loss of the consolidated statement of comprehensive income represent:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Current income tax		
– PRC corporate income tax	**6,663**	12,308
Deferred income tax *(Note 29)*		
– PRC corporate income tax	**(1,905)**	(551)
Income tax expense	**4,758**	11,757

13 Income Tax Expense *(Continued)*

(a) Cayman Island 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.

(b) British Virgin Islands income tax

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

(c) Hong Kong profits 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 2019 and 2018.

(d) PRC corporate income tax

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

Ningbo Kwung's was qualified as a "High and New Technology Enterprise" ("HNTE") since 2008 and renewed its qualification in November 2017. It is subject to a reduced preferential corporate income tax rate of 15% from 2008 to November 2020 according to the applicable tax preference applicable to the HNTE.

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 ("Super Deduction"), while the deduction rate was 150% before then. The Group made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the years ended 31 December 2019 and 2018.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	**32,568**	88,808
Tax calculated at applicable corporate income tax rate of 25%	**8,142**	22,202
Tax effects of:		
– Expenses not deductible for taxation purposes	**63**	93
– Preferential income tax rate applied in Ningbo Kwung's	**(6,407)**	(8,976)
– Super deduction for research and development expenses	**(2,455)**	(1,612)
– Deductible tax losses and temporary differences not recognised for deferred income tax assets	**5,415**	50
Income tax expense	**4,758**	11,757

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14 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. In determining the weighted average number of ordinary shares in issue for 2018, the 70,000 shares of the Company issued and allotted in November and December 2018 pursuant to the Reorganisation described in Note 1 were deemed to have been in issue as of 1 January 2018. In addition, the weighted average number of ordinary shares in issue for 2018 and 2019 had both been retrospectively adjusted for the capitalisation issue of 299,930,000 shares which took effect on 13 January 2020 (Note 35).

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	**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)	**9.3 cents**	25.7 cents

The Company did not have any potential ordinary shares outstanding during 2019 and 2018. Diluted earnings per share is equal to basic earnings per share.

15 Property, Plant and Equipment

	Buildings RMB'000	Transportation equipment RMB'000	Electronic equipment RMB'000	Machinery RMB'000	Furniture RMB'000	Leasehold improvements RMB'000	Assets under construction RMB'000	Total RMB'000
As at 1 January 2019								
Cost	19,676	2,753	1,811	10,104	1,453	2,521	8,150	46,468
Accumulated depreciation	(5,999)	(2,115)	(1,305)	(3,397)	(953)	(1,345)	–	(15,114)
Net book value	13,677	638	506	6,707	500	1,176	8,150	31,354
Year ended 31 December 2019								
Opening net book value	13,677	638	506	6,707	500	1,176	8,150	31,354
Additions	–	–	357	1,807	236	–	18,218	20,618
Transfers	8,193	–	–	–	329	13,032	(21,554)	–
Disposals	–	–	(13)	(43)	–	–	–	(56)
Depreciation *(Note 7)*	(1,004)	(279)	(161)	(828)	(235)	(1,131)	–	(3,638)
Closing net book value	20,866	359	689	7,643	830	13,077	4,814	48,278
As at 31 December 2019								
Cost	27,869	2,753	2,038	11,759	2,018	15,553	4,814	66,804
Accumulated depreciation	(7,003)	(2,394)	(1,349)	(4,116)	(1,188)	(2,476)	–	(18,526)
Net book value	20,866	359	689	7,643	830	13,077	4,814	48,278

15 Property, Plant and Equipment *(Continued)*

	Buildings RMB'000	Transportation equipment RMB'000	Electronic equipment RMB'000	Machinery RMB'000	Furniture RMB'000	Leasehold improvements RMB'000	Assets under construction RMB'000	Total RMB'000
As at 1 January 2018								
Cost	40,731	3,074	2,232	10,111	1,416	1,338	5,136	64,038
Accumulated depreciation	(17,386)	(2,091)	(1,703)	(6,171)	(1,157)	(546)	–	(29,054)
Net book value	23,345	983	529	3,940	259	792	5,136	34,984
Year ended 31 December 2018								
Opening net book value	23,345	983	529	3,940	259	792	5,136	34,984
Additions	–	2	173	2,092	339	1,183	4,525	8,314
Transfers	–	–	–	1,511	–	–	(1,511)	–
Disposals	–	–	(3)	(109)	(5)	–	–	(117)
Disposal of Shaoxing Jingming *(Note 12)*	(8,349)	–	(56)	(178)	–	–	–	(8,583)
Depreciation *(Note 7)*	(1,319)	(347)	(137)	(549)	(93)	(799)	–	(3,244)
Closing net book value	13,677	638	506	6,707	500	1,176	8,150	31,354
At 31 December 2018								
Cost	19,676	2,753	1,811	10,104	1,453	2,521	8,150	46,468
Accumulated depreciation	(5,999)	(2,115)	(1,305)	(3,397)	(953)	(1,345)	–	(15,114)
Net book value	13,677	638	506	6,707	500	1,176	8,150	31,354

Depreciation of property, plant and equipment was charged to the consolidated statement of comprehensive Income (Note 7) as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost of sales	**1,481**	1,166
Administrative expenses	**1,695**	1,952
Research and development expenses	**462**	126
	3,638	3,244

As at 31 December 2019, assets under construction represented the machinery cost of Ningbo Kwung's and Ningbo Fenyuan.

As at 31 December 2018, assets under construction represented the machinery and office building renovation cost of Ningbo Kwung's.

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16 Investment Properties

Investment properties are located in the PRC. The movement of investment properties is analysed as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Cost	**–**	–
Accumulated depreciation	**–**	–
Net book value	**–**	–
Opening net book value	**–**	22,919
Depreciation *(Note 7)*	**–**	(1,199)
Disposal of Shaoxing Jingming *(Note 12)*	**–**	(21,720)
Closing net book value	**–**	–

Lease rental income relating to the lease of investment properties was included in the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Rental income	**–**	1,863

Depreciation of investment properties was charged to the consolidated statement of comprehensive income (Note 7) as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Administrative expenses	**–**	1,199

17 Intangible Assets

	Patent right RMB'000	Software RMB'000	Total RMB'000
At 1 January 2019			
Cost	**974**	**3,519**	**4,493**
Accumulated amortisation	**(766)**	**(1,202)**	**(1,968)**
Net book value	**208**	**2,317**	**2,525**
Year ended 31 December 2019			
Opening net book value	**208**	**2,317**	**2,525**
Additions	**24**	**1,374**	**1,398**
Amortisation *(Note 7)*	**(69)**	**(350)**	**(419)**
Closing net book value	**163**	**3,341**	**3,504**
At 31 December 2019			
Cost	**998**	**4,893**	**5,891**
Accumulated amortisation	**(835)**	**(1,552)**	**(2,387)**
Net book value	**163**	**3,341**	**3,504**
At 1 January 2018			
Cost	974	2,817	3,791
Accumulated amortisation	(692)	(922)	(1,614)
Net book value	282	1,895	2,177
Year ended 31 December 2018			
Opening net book value	282	1,895	2,177
Additions	–	711	711
Amortisation *(Note 7)*	(74)	(288)	(362)
Disposal of Shaoxing Jingming *(Note 12)*	–	(1)	(1)
Closing net book value	208	2,317	2,525
At 31 December 2018			
Cost	974	3,519	4,493
Accumulated amortisation	(766)	(1,202)	(1,968)
Net book value	208	2,317	2,525

Amortisation of intangible assets was charged to the consolidated statement of comprehensive income (Note 7) as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Administrative expenses	**419**	362

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18 Right-of-use Assets

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Land use rights	**7,757**	8,003
Properties	**8,963**	5,220
	16,720	13,223

(1) Land use rights

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC and the lease term is 50 years. The net book amount of land use rights is analyzed as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Cost	**10,807**	10,807
Accumulated amortisation	**(3,050)**	(2,804)
Net book value	**7,757**	8,003
Opening net book value	**8,003**	17,751
Disposal of Shaoxing Jingming *(Note 12)*	**–**	(9,311)
Amortisation charges *(Note 7)*	**(246)**	(437)
Closing net book value	**7,757**	8,003

Amortisation of land use rights was charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Administrative expenses	**246**	437

18 Right-of-use Assets *(Continued)*

(2) Properties

The Group leases properties for own use. Information about leases for which the Group is a lessee is presented below:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Cost	**12,176**	6,235
Accumulated depreciation	**(3,213)**	(1,015)
Net book value	**8,963**	5,220
Opening net book value	**5,220**	–
Additions	**5,941**	6,235
Depreciation charge *(Note 7)*	**(2,198)**	(1,015)
Closing net book value	**8,963**	5,220

The consolidated statement of comprehensive income and the consolidated statement of cash flows contain the following amounts relating to leases:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Depreciation and amortisation charges of right-of-use assets	**2,198**	1,015
Interest paid	**264**	161
Expenses relating to low value or short-term leases	**640**	218
The cash outflows for leases as operating activities	**640**	218
The cash outflows for leases as financing activities	**1,870**	819

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For the year ended 31 December 2019

19 Financial Instruments by Category

The Group holds the following financial instruments:

		As at 31 December	
	Note	**2019 RMB'000**	2018 RMB'000
Financial assets			
Financial assets at amortised cost:			
Trade receivables	*21*	**64,920**	64,330
Other receivables (excluding recoverable value added tax)	*22*	**2,542**	144,163
Cash and cash equivalents	*24*	**67,843**	92,611
Financial assets at fair value through profit or loss	*23*	**–**	1,530
		135,305	302,634
Financial liabilities			
Liabilities at amortised cost:			
Trade and other payables	*27*	**32,170**	206,468
Lease liabilities	*28*	**9,534**	5,416
Financial liabilities at fair value through profit or loss	*23*	**14,472**	3,069
		56,176	214,953

20 Inventories

	As at 31 December	
	2019 RMB'000	2018 RMB'000
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)
	42,671	39,261

The cost of inventories recognised as expense and included in "cost of sales" in the consolidated statement of comprehensive income amounted to RMB352,116,000 for the year ended 31 December 2019 (2018: RMB321,819,000).

21 Trade Receivables

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

Trade receivables all arise from sales of goods.

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
US$	**63,915**	62,853
RMB	**1,962**	1,930
	65,877	64,783

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
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 and within three 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.

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21 Trade Receivables *(Continued)*

The Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised 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 did not hold any collateral as security over these debtors.

	Year ended 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
	RMB'000	RMB'000
At the beginning of the year	**(453)**	(207)
Provision for impairment	**(504)**	(246)
At the end of the year	**(957)**	(453)

22 Prepayments, Deposits 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
Subtotal	**21,847**	15,460
Other receivables		
– Deposits	**513**	29
– Advances to employees	**650**	482
– Recoverable value-added tax	**3,386**	5,174
– Amounts due from related parties *(Note 33(d))*	**468**	143,652
– Others	**911**	–
Subtotal	**5,928**	149,337
Total	**27,775**	164,797
Less: allowance for impairment of other receivables	**(209)**	(51)
	27,566	164,746

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)
(Provision)/Reversal for impairment	**(158)**	17
At the end of the year	**(209)**	(51)

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23 Financial Assets/liabilities at Fair Value Through Profit or Loss

Financial assets

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
USD: RMB fixed-fixed cross-currency interest rate swap *(Note a)*	**–**	1,530

Note a: In January 2018, the Group entered into two fixed-fixed cross-currency interest rate swaps. One swap had a US$2,000,000 receive leg receiving interest at 1.8%, and a RMB12,840,000 pay leg paying interest at 3.87%; the other swap had a US$2,000,000 receive leg receiving interest at 1.8%, and a RMB12,640,000 pay leg paying interest at 3.97% (Total of US$4,000,000 and RMB25,480,000 are equivalent based on the spot rate at inception). The swaps had annual interest settlements, an one-year maturity and were settled during the year ended 31 December 2019.

Financial liabilities

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Foreign currency forwards *(Note b)*		
– Current	**14,472**	3,069

Note b: The Group entered into a number of foreign currency forward agreements with commercial banks for the sale of US$59,100,000 on a future date within 1 year at 31 December 2019, with the forward exchange rates ranged from 6.671 to 6.841; and for the sale of US$14,000,000 on a future date within 1 year at 31 December 2018, with the forward exchange rates ranged from 6.388 to 6.890.

For information about the methods used in determining fair value, please refer to Note 3.3.

24 Cash and Cash Equivalents

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash on hand	**30**	42
Cash in banks	**67,118**	92,295
Cash in other financial institutions	**695**	274
	67,843	92,611

Cash in other financial institutions was related to online sales and classified as cash and cash equivalents.

24 Cash and Cash Equivalents *(Continued)*

The carrying amounts of cash and cash equivalents were denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
RMB	**42,785**	35,209
US$	**24,840**	57,245
EUR	**218**	157
	67,843	92,611

All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates ranged from 0.30% to 1.94% during the years ended 31 December 2019 and 2018.

25 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 was HK$ 380,000 at par value of HK$0.001.

Ordinary shares issued and fully paid:

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

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 agreed to contribute 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. RMB49,048,000 was paid by shareholders during 2018 and the remaining RMB114,632,000 was received during 2019.

(c) As stated in Note 35, subsequent to the year end, the Company effected the capitalisation issue of shares and the share capital is increased by HK$299,930 and the share premium decreased by the same amount accordingly. This will be reflected in subsequent period financial statements of the Company.

(d) As stated in Note 35, subsequent to the year end, the Company issued a total of 105,042,000 shares at HK$1.28 per share in connection with its initial public offering. The share capital and share premium were increased accordingly. This will be reflected in subsequent period financial statements of the Company.

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26 Other Reserves

	Capital reserves RMB'000	Statutory reserves RMB'000	Translation differences RMB'000	Total other reserves RMB'000
As at 1 January 2019	**(72,629)**	**33,070**	**46**	**(39,513)**
Exchange differences on translation of foreign operations	**–**	**–**	**7**	**7**
Appropriation to statutory reserves *(Note a)*	**–**	**4,950**	**–**	**4,950**
As at 31 December 2019	**(72,629)**	**38,020**	**53**	**(34,556)**
As at 1 January 2018	91,052	25,853	(3)	116,902
Appropriation to statutory reserves *(Note a)*	–	7,217	–	7,217
Exchange differences on translation of foreign operations	–	–	49	49
Deemed distribution to owners of Ningbo Kwung's to effect the Reorganisation *(Note b)*	(163,681)	–	–	(163,681)
As at 31 December 2018	(72,629)	33,070	46	(39,513)

(a) In accordance with the PRC Company Law, certain subsidiaries of the Group incorporated in the PRC are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the PRC Company Law, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(b) On 13 December 2018, Kwung's HK entered into an equity transfer agreement with each of the original shareholders of Ningbo Kwung's to acquire the entire shareholdings of Ningbo Kwung's from each of its shareholders respectively at a total consideration payable of approximately RMB163,681,000. The consideration was paid in April 2019.

27 Trade and Other Payables

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables due to third parties	**19,452**	40,906
Other payables due to	**12,719**	165,562
– related parties *(Note 33(d))*	**269**	163,681
– third parties	**12,450**	1,881
Staff salaries and welfare payables	**13,546**	12,181
Accrued taxes other than income tax	**1,098**	3,510
	46,815	222,159

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

(b) During the years ended 31 December 2019 and 2018, the majority of the Group's trade and other payables were denominated in RMB.

(c) Ageing analysis of trade payables to third parties and related parties based on invoice date at the respective year end dates was as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within one year	**18,453**	39,049
Over one year and within two years	**311**	1,183
Over two years	**688**	674
	19,452	40,906

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28 Lease Liabilities

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Minimum lease payments due		
– Within 1 year	**4,232**	2,086
– Between 1 and 2 years	**3,764**	2,086
– Between 2 and 5 years	**2,146**	1,621
	10,142	5,793
Less: Future finance charges	**(608)**	(377)
Present value of lease liabilities	**9,534**	5,416
– Within 1 year	**3,863**	1,870
– Between 1 and 2 years	**3,580**	1,960
– Between 2 and 5 years	**2,091**	1,586
Present value of lease liabilities	**9,534**	5,416

The Group leases offices and warehouses and these lease liabilities were measured at net present value of the lease payments to be paid during the lease terms. Certain of the lease liabilities were payable to related parties (Note 33(d)).

Lease liabilities were discounted at incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities was 4.75%.

For the total cash outflows for leases including payments of lease liabilities and payments of interest expenses on leases are disclosed in Note 18.

29 Deferred Income Tax Assets

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	**–**	–
– to be recovered within 12 months	**3,043**	1,138
	3,043	1,138

The movement in deferred income tax assets and liabilities during the years ended 31 December 2019 and 2018, taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Allowance on doubtful debts	Accrued payroll	Financial assets and liabilities at FVPL	Accrued expenses	Right-of-use assets	Lease liabilities	Tax losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019	**129**	**387**	**231**	**359**	**(1,131)**	**1,163**	**–**	**1,138**
(Charged)/credited to the consolidated statement of comprehensive income	**38**	**(107)**	**1,976**	**(189)**	**(994)**	**1,090**	**91**	**1,905**
At 31 December 2019	**167**	**280**	**2,207**	**170**	**(2,125)**	**2,253**	**91**	**3,043**
As at 1 January 2018	73	433	–	27	–	–	54	587
(Charged)/credited to the consolidated statement of comprehensive income	56	(46)	231	332	(1,131)	1,163	(54)	551
At 31 December 2018	129	387	231	359	(1,131)	1,163	–	1,138

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through future taxable profit is probable. Tax losses of Group companies operated in the PRC could be carried forward for a maximum of five years. For the year ended 31 December 2019, the Group did not recognise deferred income tax assets in respect of tax losses amounting to RMB21,166,000. Upon the disposal of loss carrying subsidiaries, there was no tax losses carried forward against future taxable income as at 31 December 2018.

As at 31 December 2019, deferred income tax liabilities of RMB3,448,000 (2018: RMB2,311,000) were not recognised for the withholding tax (tax rate of 5% or 10%) and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled approximately RMB68,957,000 at 31 December 2019 (2018: RMB46,226,000).

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30 Dividends

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
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.

No final dividend was proposed for the year ended 31 December 2019.

31 Cash Flow Information

(a) Cash generated from operations

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	**32,568**	88,808
Adjustments for:		
– Amortisation of intangible assets *(Note 17)*	**419**	362
– Depreciation of property, plant and equipment *(Note 15)*	**3,638**	3,244
– Amortisation and depreciation of right-of-use assets *(Note 18)*	**2,444**	1,452
– Depreciation of investment properties *(Note 16)*	**–**	1,199
– Net impairment loss on financial assets *(Note 21, 22)*	**662**	228
– Net losses on disposal of property, plant and equipment *(Note 10)*	**38**	107
– Net fair value gains on wealth management products issued by commercial banks *(Note 10)*	**–**	387
– Finance costs/(income) *(Note 11)*	**395**	73
– Net gain on disposal of a subsidiary	**–**	(42,491)
Changes in working capital:		
– Inventories	**(3,410)**	(2,807)
– Trade receivables	**(1,724)**	(23,358)
– Prepayments, deposits and other receivables	**(6,537)**	(15,254)
– Financial assets/liabilities at fair value through profit or loss	**12,933**	1,152
– Contract liabilities	**1,626**	599
– Trade and other payables	**(9,238)**	12,545
Cash generated from operations	**33,814**	26,246

31 Cash Flow Information *(Continued)*

(b) Proceeds from disposal of a subsidiary – cash inflow

	Year ended 31 December 2018 RMB'000
Inflow of cash in the disposal of Shaoxing Jingming, net of cash disposed of *(Note 12)*	
Cash consideration received	76,101
Less: Cash disposed of	(16,556)
Net inflow of cash – investing activities	59,545

(c) In the statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net book amount *(Note 15)*	**56**	117
Losses on disposal of property, plant and equipment *(Note 10)*	**(38)**	(107)
	18	10

(d) Net debt reconciliation

	Lease liabilities due within one year RMB'000	**Lease liabilities due after one year** RMB'000	**Total** RMB'000
Net debt as at 1 January 2018	–	–	–
Additions	(819)	(5,416)	(6,235)
Cash flows	819	–	819
Reclassification	(1,870)	1,870	–
Net debt as at 31 December 2018	(1,870)	(3,546)	(5,416)
Net debt as at 1 January 2019	**(1,870)**	**(3,546)**	**(5,416)**
Additions	**(1,903)**	**(4,085)**	**(5,988)**
Cash flows	**1,870**	**–**	**1,870**
Reclassification	**(1,960)**	**1,960**	**–**
Net debt as at 31 December 2019	**(3,863)**	**(5,671)**	**(9,534)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32 Commitments

(a) Operating lease commitments – as lessee

The Group leases certain warehouse and factory workshop under non-cancellable operating lease agreements within 1 year contract periods. Majority of the lease agreements are signed with related parties at market price.

The future aggregate minimum lease payments under these short-term non-cancellable operating leases are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within one year	**546**	108

(b) Capital commitments

Significant capital expenditure contracted for as at 31 December 2019 and 2018 but not recognised as liabilities is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Property, plant and equipment	**2,979**	–

33 Related Party Transactions

(a) Names and relationships with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2019 and 2018, and balances arising from related party transactions as at 31 December 2019 and 2018.

Name of related parties	**Nature of relationship**
Mr. Jin	Ultimate Controlling Shareholder
Ningbo Investment	Entity controlled by Ultimate Controlling Shareholder
Shaoxing Jingming	Entity controlled by Ultimate Controlling Shareholder
Ningbo Internet Trading Culture Development Co., Limited	Entity controlled by Ultimate Controlling Shareholder

33 Related Party Transactions *(Continued)*

(b) Transactions with related parties

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loan borrowed from a relate party		
– Mr. Jin	**6,861**	–
Repayment of loans borrowed from a related party		
– Mr. Jin	**6,592**	-
Payment on behalf of a related party		
– Ningbo Internet Trading Culture Development Co., Limited	**418**	–
Disposal of a subsidiary to related parties		
– Ningbo Investment	**–**	102,970
– Mr. Jin	**–**	2,101
	–	105,071
Rental fee charged by related parties		
– Ningbo Investment	**621**	466
– Shaoxing Jingming	**1,336**	334
	1,957	800

(c) Key management compensation

Key management includes directors and senior management. Other than those for directors as disclosed in Note 34, no compensations were paid or payable to senior management during the years ended 31 December 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

33 Related Party Transactions *(Continued)*

(d) Balances with related parties

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Amounts due from related parties		
Non-trade:		
– Shareholders of the Company *(Note 25(b))*	**–**	114,632
– Ningbo Investment *(Note i)*	**–**	28,970
– Ningbo Internet Trading Culture Development Co., Limited	**418**	–
– Shaoxing Jingming	**50**	50
	468	143,652

Note i: See Note 12, Ningbo Kwung's entered into two equity transfer agreements with Ningbo Investment and Mr. Jin, respectively to transfer its equity interest in Shaoxing Jingming at a total consideration of RMB103 million and RMB2.1 million respectively. As at 31 December 2018, RMB76 million of consideration had been received, see Note 31(b), and the remaining RMB29 million was received during 2019.

The amounts due from related parties are unsecured, interest-free, repayable on demand.

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Amounts due to related parties		
Lease liabilities:		
– Shaoxing Jingming	**2,244**	3,508
– Ningbo Investment	**1,302**	1,908
	3,546	5,416
Non-trade:		
– Mr. Jin	**269**	–
– The shareholders of Ningbo Kwung's	**–**	163,681
	269	163,681
	3,815	169,097

34 Directors' Benefits and Interests

As of the date of issue of these financial statements, the directors of the Company are as follows:

Executive directors
Mr. Jin
Mr. Ru Liming
Mr. Tian Dong

Non-executive director
Mr. Shao Patrick

Independent non-executive directors
Mr. Zhou Kai
Mr. Yang Herong
Mr. Lai Chun Yu

(a) Directors' emoluments

The directors received emoluments from the Group (in their role as senior management and employee before their appointment as directors respectively) for the year ended 31 December 2019 as follows:

Name	Fees RMB'000	Salaries RMB'000	Bonus RMB'000	Housing allowances and contributions to a retirement scheme RMB'000	Total RMB'000
Executive directors					
Mr. Jin	–	–	–	–	–
Mr. Tian Dong	–	226	–	–	226
Mr. Ru Liming	–	226	–	–	226
Non-executive director					
Mr. Shao Patrick	–	–	–	–	–
Independent non-executive directors					
Mr. Zhou Kai	–	–	–	–	–
Mr. Yang Herong	–	–	–	–	–
Mr. Lai Chun Yu	–	–	–	–	–
	–	452	–	–	452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34 Directors' Benefits and Interests *(Continued)*

(a) Directors' emoluments *(Continued)*

The directors received emoluments from the Group (in their role as senior management and employee before their appointment as directors respectively) for the year ended 31 December 2018 as follows:

Name	Fees RMB'000	Salaries RMB'000	Bonus RMB'000	Housing allowances and contributions to a retirement scheme RMB'000	Total RMB'000
Executive directors					
Mr. Jin	–	–	–	–	–
Mr. Tian Dong	–	226	–	–	226
Mr. Ru Liming	–	226	–	–	226
Non-executive director					
Mr. Shao Patrick	–	–	–	–	–
Independent non-executive directors					
Mr. Zhou Kai	–	–	–	–	–
Mr. Yang Herong	–	–	–	–	–
Mr. Lai Chun Yu	–	–	–	–	–
	–	452	–	–	452

(b) Retirement benefits of directors

During the years ended 31 December 2019 and 2018, there were no additional retirement benefits received by the directors except for the contributions to a retirement benefit scheme in accordance with the rules and regulations in the PRC.

(c) Termination benefits of directors

During the years ended 31 December 2019 and 2018, there were no termination benefits received by the directors.

(d) Consideration provided to third parties for making available the services of directors

During the years ended 31 December 2019 and 2018, no consideration was paid for making available the services of the directors or senior management of the Company.

34 Directors' Benefits and Interests *(Continued)*

(e) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors

During the year ended 31 December 2019, the Company borrowed RMB5,077,000 from Mr. Jin and repaid RMB4,808,214. During the year ended 31 December 2019, Kwung's HK borrowed RMB1,784,000 from Mr. Jin and then fully repaid.

During the year ended 31 December 2018, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries of the Company, where applicable, in favour of directors.

(f) Directors' material interests in transactions, arrangements or contracts

Except for mentioned above and those disclosed in Note 33, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company or subsidiaries of the Company was a party and in which a director of the Company had interests, whether directly or indirectly, subsisted at 31 December 2019 and 2018 or at any time during the years then ended.

35 Subsequent events

Pursuant to the written resolutions dated 13 January 2020 passed by the board of directors of the Company, the Company capitalised an amount of HK$299,930, standing to the credit of its share premium account and appropriated such amount as capital to pay up 299,930,000 shares in full, issued at par to the then shareholders of the Company in proportion to their then respective shareholdings in the Company.

The Company's shares began to list on the Stock Exchange on 16 January 2020. 100,000,000 shares were issued upon listing date at HK$1.28 per share. 5,042,000 over-allotment shares were issued and allotted by the Company at HK$1.28 per share on 5 February 2020.

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC. The COVID-19 outbreak had a temporary but not material impact on the Group's production activities. In addition, management of the Group has timely communication with the customers from time and time and certain customers, in particulars, customers from European countries, request for short postponement for the delivery of the Group's products for which purchase orders have been placed to the Group. There have been limited numbers of purchase order cancellation as a result of COVID-19 outbreak up to the date of approval of the consolidated financial statements. The COVID-19 outbreak would only be taken into account in the Group's consolidated financial statements subsequent to 31 December 2019 (non-adjusting event). The Group will continue to pay close attention to the development of the COVID-19 outbreak and is evaluating the impact.

Save as disclosed above, there is no other material subsequent event undertaken by the Company or by the Group after 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36 Financial Position and Reserve Movements of the Company

(a) The Company's statement of financial position as at 31 December 2019

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Assets			
Non-current asset			
Investment in a subsidiary	*a*	**163,681**	163,681
Current assets			
Amounts due from related parties	*b*	**–**	114,632
Prepayments and other receivables		**5,636**	–
Cash and cash equivalents		**2,491**	11
Total current assets		**8,127**	114,643
Total assets		**171,808**	278,324
Equity			
Share capital	*25*	**–**	–
Share premium	*25*	**163,681**	163,681
Accumulated losses	*e*	**(13,783)**	–
Total equity		**149,898**	163,681
Current liabilities			
Amount due to ultimate controlling shareholder	*c*	**269**	–
Amount due to a subsidiary	*d*	**–**	114,643
Accruals and other payables		**21,641**	–
Total liabilities		**21,910**	114,643
Total equity and liabilities		**171,808**	278,324

The Company's statement of financial position was approved by the board of directors of the Company on 31 March 2020 and was signed on its behalf by:

JIN Jianxin
Executive director

TIAN Dong
Executive director

36 Financial Position and Reserve Movements of the Company *(Continued)*

(b) Notes to the Company's statement of financial position

Note a: Investment in a subsidiary represents the investment in Kwung's investments.

Note b: Amounts due from related parties as at 31 December 2018 represented the shareholder contribution due from shareholders (Note 25(b)). The amounts were received in 2019.

Note c: Amount due to ultimate controlling shareholder as at 31 December 2019 represented the shareholder loan payable to ultimate controlling shareholder Mr. Jin.

Note d: Amount due to a subsidiaries as at 31 December 2018 represented consideration payable to a subsidiary to acquire the equity interests in Ningbo Kwung's. The amount was paid in 2019.

Note e: Movements of accumulated losses

	Accumulated losses RMB'000
Balance at 1 January 2019	–
Comprehensive loss	
Loss for the year	(13,783)
Balance at 31 December 2019	**(13,783)**
Balance at 13 November 2018 (date of incorporation) and 31 December 2018	**–**

SUMMARY FINANCIAL INFORMATION

	Years ended 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**501,131**	444,704	445,860	399,473
Gross profit	**133,679**	107,029	96,521	85,195
Operating profit	**32,963**	88,881	43,468	53,082
Profit before income tax	**32,568**	88,808	43,491	52,861
Income tax expense	**(4,758)**	(11,757)	(5,845)	(7,329)
Total comprehensive income for the year, attributable to owners of the Company	**27,827**	77,059	37,696	45,627
Earnings per share for profits attributable to owners of the Company (expressed in RMB per share) – Basic and diluted	**9.3 cents**	25.7 cents	12.5 cents	15.2 cents

	As at 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**71,545**	48,240	78,418	75,834
Current assets	**203,000**	362,478	168,423	140,437
Total assets	**274,545**	410,718	246,841	216,271
Non-current liabilities	**5,671**	3,546	–	–
Current liabilities	**70,154**	236,271	48,052	40,584
Total liabilities	**75,825**	239,817	48,052	40,584
Total equity	**198,720**	170,901	198,789	175,687