

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

KWUNG'S HOLDINGS LIMITED

曠世控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1925)

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The Board hereby announces the unaudited interim results of the Group for the six months ended 30 June 2021.

	Six months ended 30 June		Change
	2021	2020	
	RMB'000	RMB'000	
Revenue	242,781	159,662	52.1%
Gross profit	51,672	44,063	17.3%
Gross profit margin	21.3%	27.6%	(6.3%)
Total comprehensive income attributable to owners of the Company	15,278	4,414	246.1%
Earnings per share (basic and diluted) (expressed in RMB cents)	3.8	1.1	243.3%
Dividend declared in respect of the period	—	—	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2021, the world economy was still struggling under the shadow of the COVID-19 pandemic. However, given the effective prevention and control policies adopted by the PRC government and coupled with the Group's stringent anti-pandemic management, our production had basically not been affected. By virtue of our stable production capacity and outstanding market sense, our orders from customers even recorded an increase during the pandemic period. At the current stage, the Group strives to achieve a better performance in the fragrance market with joint efforts through maintaining our core advantages in self-dependent research and development, design and supply chain, and maintaining close contacts with customers, suppliers and other business partners.

Due to the emerging momentum of domestic fragrance market, more and more domestic consumers have begun to try fragrance and home products, which presents an enormous market opportunity to fragrance products and home products. To seize that chance, the Group has launched a series of new products based on our surveys on consumer preferences, and has achieved positive feedback in sales. We are welcomed and favoured by consumers, and are therefore confident about the future business development of the Group.

The Group provides products and services to prominent design manufacturers and suppliers of fragrance products, innovative home products and home decoration products with fragrance candles and fragrance diffusers as core products, so as to promote home fragrance products and innovative home products to be widely used in people's daily life.

The Group's products are mainly sold to overseas markets in more than 20 countries and regions, including France, the United Kingdom, the Netherlands, Germany, Canada and Australia. In the first half of 2021, there was no material change in the customer structure of the Group, but with a significant increase in both order value and order intake.

Fragrance candles and fragrance diffusers remain the core products of the Group. On this basis, we make innovations to provide more diversified product options for customers.

The Group possesses well-established sizable manufacturing bases and has a long-term relationship with suppliers of raw materials and consumables and contract manufacturers which forms a comprehensive system of supply chain. In spite of the keen market competition, the Group has further solidified the leading industry position in terms of the sales of its home fragrance candles and fragrance diffusers in the first half of 2021 due to self-owned and controllable cost control in the supply chain and effective pricing strategies as well as flexible order-taking ability and abundant production capacity.

The Group has a strong technical research and development team. As of 30 June 2021, the Group has obtained a total of 92 patents, utility model and appearance design patents in the PRC. In the first half of 2021, the research and development team of the Group optimised the entire process ingredient system, and enriched the type of self-made flavours.

The Group also possesses a design team with extensive experience and abundant creativity, which can conduct the innovation design and development of products based on users' living scenario and consuming situation, and closely cooperate with partners to optimise and innovate the products.

The Group possesses advanced sizable manufacturing bases and has a long-term cooperative relationship with suppliers of raw materials and consumables and contract manufacturers which forms a comprehensive system of supply chain. The Group is upgrading the equipment and technique for production, and improving system and constructing a new production line so as to enhance the ability of quantitative manufacturing and realise flexible production effectively based on the customised needs of customers and the order structure.

In spite of the keen market competition, the Group has further solidified the leading industry position in terms of the sales of its home fragrance candles and fragrance diffusers in the first half of the year due to self-owned and controllable cost control in the supply chain and effective pricing strategies as well as flexible order-taking ability and abundant production capacity.

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 six months ended 30 June 2021. It increased by approximately RMB83.1 million or approximately 52.1% to approximately RMB242.8 million for the six months ended 30 June 2021 from approximately RMB159.7 million for the six months ended 30 June 2020.

Despite we encounter a slight drop in selling prices of the Group's products denominated in USD as a result of the depreciation of USD against RMB during the six months ended 30 June 2021, there was an increase in the purchase order for all of the Group's products. The increase in revenue as compared to the last period is not only because of business recovery from COVID-19, but also an organic growth with the Group's existing customers. Despite there has been difficulties in arranging advertising and promotion activities under the COVID-19 pandemic, such as cancellation of Canton Fair and restricted travel for customers visit to the Group's production bases, management of the Group has taken proactive approaches to provide more support to the Group's existing major customers, such as further research and development on product design and market analysis for customers.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB7.6 million or 17.3% to approximately RMB51.7 million for the six months ended 30 June 2021 from approximately RMB44.1 million for the six months ended 30 June 2020. Such increase in the gross profit was mainly due to the increase in the Group's sales volume for the six months ended 30 June 2021.

The Group recorded a decrease in gross profit margin despite an increase in sales volume for the six months ended 30 June 2021. The gross profit margin decreased to approximately 21.3% for the six months ended 30 June 2021 from approximately 27.6% for the six months ended 30 June 2020. Such decrease was mainly attributed by the depreciation of USD against RMB during the six months ended 30 June 2021, which resulted in a decrease in revenue from purchase orders denominated in United States dollars while the majority of the Group's suppliers are local enterprises in PRC and the Group was billed in RMB. There were also increased costs on supply chain management and the sustainability development.

In addition, there was insufficient production capacity during the period causing additional production costs, such as higher costs for subcontracting certain production procedures and extra costs for arranging temporary warehouses, incurred by the Group. These extra costs are considered to be temporary and will be reduced to minimal level should the production plans meet with the Group's production capacity in long run.

Other income

The Group's other income mainly represents income from government grants in PRC and rental income for leasing a warehouse in Ningbo City, Zhejiang Province, PRC, to an independent third party. It decreased by approximately RMB2.1 million or 54.7% to approximately RMB1.8 million for the six months ended 30 June 2021 from approximately RMB3.9 million for the six months ended 30 June 2020. Decrease in other income during the current period was mainly because there were non-recurring government grants in relation to COVID-19 in the prior period.

Administrative expenses

The Group's administrative expenses mainly comprise payroll costs for the management team and supporting staff, costs 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.

The administrative expenses remained at similar level for the six months ended 30 June 2021 as compared to the six months ended 30 June 2020.

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, advertising and promotion expenses and operating costs for the Group's retail stores.

There was an increase in selling and marketing expenses of approximately RMB4.0 million or 60.2% to approximately RMB10.7 million for the six months ended 30 June 2021 from approximately RMB6.7 million for the six months ended 30 June 2020. Increase in the Group's selling and marketing expenses for the current period was mainly due to additional operating costs for the newly set up self-operated retail stores.

Other gains and losses

The Group's other gains and losses mainly comprise net foreign exchange differences, net gains/(losses) on forward contracts and also gain on wealth management products from financial institutions.

Forward contracts for foreign currencies, mainly RMB against USD, are arranged over the years to manage the foreign currency exposure arising from purchase orders from overseas customers, which are mainly denominated in USD. 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. There has been a depreciation of USD against RMB during the six months ended 30 June 2021 while there was an appreciation for the year ended 30 June 2020, resulting in an increase of foreign exchange gains for the year ended 30 June 2021, contributing to the increase in the Group's profit for the six months ended 30 June 2021.

Finance income and finance costs

The Group's finance income represents the interest income earned from financial institutions and the Group's finance costs comprise the interest expense component on the operating lease arrangement in relation to the Group's leased production facilities and retail stores.

Income tax expenses

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.

There was an increase in the Group's income tax expense by approximately RMB1.7 million or 113.6% to approximately RMB3.1 million for the six months ended 30 June 2021 from approximately RMB1.5 million for the six months ended 30 June 2020. Such increase was mainly due to the increase in the Group's profit before tax for the six months ended 30 June 2021.

The overall effective tax rate of the Group decreased from approximately 25.4% for the six months ended 30 June 2020 to approximately 17.1% for the six months ended 30 June 2021. Such decrease was mainly because the Group commenced trading of products to overseas customers through its Hong Kong subsidiary which bear a lower statutory tax rate than PRC subsidiaries, and also there were certain unrecognised tax losses for the Hong Kong subsidiary to offset with assessable profits arisen during the six months ended 30 June 2021.

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 a slight decrease in the net carrying amounts of the Group's property, plant and equipment by approximately RMB1.6 million during the six months ended 30 June 2021 which was mainly due to the depreciation charge for the six months ended 30 June 2021.

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 a decrease in the net carrying amounts of the Group's right-of-use assets by approximately RMB2.3 million during the six months ended 30 June 2021 mainly due to the amortisation charge for the period.

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 RMB23.2 million or 42.2% to approximately RMB78.2 million as at 30 June 2021 from approximately RMB55.0 million as at 31 December 2020 which was mainly due to the increased stock level of raw materials for upcoming production plans in the third quarter of 2021.

Trade receivables

Trade receivables balance as at 30 June 2021 mainly represented the outstanding balance from the Group's overseas customers. There was an increase in trade receivables balance before allowance for impairment of approximately RMB21.4 million or 25.8% from approximately RMB82.9 million as at 31 December 2020 to approximately RMB104.3 million as at 30 June 2021. The increase in the Group's trade receivables balance was mainly due to the organic growth of purchase orders from the Group's existing overseas customers.

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 RMB3.0 million was recorded as at 30 June 2021, 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 and recoverable value-added tax.

There was an increase in the balance of approximately RMB4.5 million or 28.3% to approximately RMB20.2 million as at 30 June 2021 from approximately RMB15.8 million as at 31 December 2020, which was mainly due to the increase in recoverable value-added tax as a result of increase in raw materials purchased for upcoming production plans.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as at 30 June 2021 represented the foreign currency forward agreements entered into with commercial banks in respect of the exchange rate of RMB against USD. Appreciation of RMB against USD would increase asset amount of the forward agreement and vice versa and such financial instruments are arranged to reduce the Group's exposure to the financial risk arising from the purchase orders from overseas customers which are mainly denominated in USD.

Cash and cash equivalents

The balance of cash and cash equivalents as at 30 June 2021 comprised cash deposited into financial institutions in the PRC and Hong Kong.

The balance mainly represented the unutilised portion of the net proceeds from the Listing and also operating cash flows from the Group's business during the six months ended 30 June 2021.

Trade and other payables

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

Balance as at 30 June 2021 remained at similar level as compared to the balance as at 31 December 2020.

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 a decrease in the balance of approximately RMB2.2 million to approximately RMB3.8 million as at 30 June 2021 from approximately RMB5.9 million as at 31 December 2020 due to the settlement during the six months ended 30 June 2021.

FINANCIAL INFORMATION

Interim condensed consolidated statement of comprehensive income Six months ended 30 June 2021

	Notes	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	3	242,781	159,662
Cost of sales		(191,109)	(115,599)
Gross profit		51,672	44,063
Administrative expenses		(25,827)	(25,346)
Selling and marketing expenses		(10,730)	(6,698)
Net impairment losses on financial assets		(1,549)	(389)
Other income		1,765	3,892
Other gains/(losses), net		2,794	(9,788)
Operating profit		18,125	5,734
Finance income		399	263
Finance costs		(134)	(208)
Finance income, net		265	55
Profit before income tax		18,390	5,789
Income tax expenses	4	(3,140)	(1,470)
Profit for the period		15,250	4,319
Profit for the period attributable to:			
Owners of the Company		15,305	4,357
Non-controlling interests		(55)	(38)
Other comprehensive income:			
Items that maybe reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(34)	71
Total comprehensive income for the period		15,216	4,390
Total comprehensive income attributable to:			
Owners of the Company		15,278	4,414
Non-controlling interests		(62)	(24)
Earnings per share for profit attributable to owners of the Company — Basis and diluted (expressed in RMB cents)	6	3.8	1.1

Interim condensed consolidated statement of financial position

As at 30 June 2021

		30 June 2021	31 December 2020
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		43,867	45,467
Investment properties		4,884	4,995
Right-of-use assets		10,719	13,028
Intangible assets		4,613	4,763
Deferred income tax assets		992	510
		<hr/>	<hr/>
Total non-current assets		65,075	68,763
		<hr/>	<hr/>
Current assets			
Inventories		78,235	55,031
Trade receivables	7	101,287	81,105
Prepayments, deposits and other receivables		20,208	15,753
Financial assets at fair value through profit or loss		2,749	44,726
Other current assets		12,920	20,000
Cash and cash equivalents		131,889	110,735
		<hr/>	<hr/>
Total current assets		347,288	327,350
		<hr/>	<hr/>
Total assets		412,363	396,113
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Share capital	8	359	359
Share premium	8	249,653	249,653
Other reserves		(29,874)	(29,847)
Retained earnings		120,348	105,043
		<hr/>	<hr/>
		340,486	325,208
		<hr/>	<hr/>
Non-controlling interests		474	536
		<hr/>	<hr/>
Total equity		340,960	325,744
		<hr/>	<hr/>

		30 June	31 December
		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
LIABILITIES			
Current liabilities			
Trade and other payables	9	59,715	58,339
Contract liabilities		3,248	3,819
Current income tax liabilities		4,662	2,276
Lease liabilities		2,636	3,759
		<hr/>	<hr/>
Total current liabilities		70,261	68,193
		<hr/>	<hr/>
Non-current liabilities			
Lease liabilities		1,142	2,176
		<hr/>	<hr/>
Total liabilities		71,403	70,369
		<hr/>	<hr/>
Total equity and liabilities		412,363	396,113
		<hr/> <hr/>	<hr/> <hr/>

Notes:

1. BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2021 has been prepared in accordance with HKAS 34 Interim Financial Reporting issued by Hong Kong Institute of Certified Public Accountants.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020.

3. REVENUE

Revenue mainly comprises of proceeds from selling goods. An analysis of the Group's revenue by category for the six months ended 30 June 2020 and 30 June 2021 is as follows:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from customers		
Candles	152,650	110,256
Home fragrance	45,221	18,249
Home accessories	44,910	31,157
	<u>242,781</u>	<u>159,662</u>

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax — PRC	3,621	2,247
Deferred income tax — PRC	(481)	(777)
	<u>3,140</u>	<u>1,470</u>

5. DIVIDEND

No dividends were paid, declared or proposed during the six months ended 30 June 2020 and 30 June 2021.

6. EARNINGS PER SHARE

(a) Basic

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 the six months ended 30 June 2020 and 30 June 2021, respectively. The weighted average number of ordinary shares had been retrospectively adjusted for the effects of capitalisation issue on 13 January 2020.

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Profit attributable to owners of the Company (expressed in RMB'000)	15,305	4,357
Weighted average number of ordinary shares in issue (expressed in thousand)	<u>405,042</u>	<u>395,831</u>
Basic earnings per share for profit attributable to the owners of the Company (expressed in RMB cents per share)	<u>3.8</u>	<u>1.1</u>

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

During the six months ended 30 June 2020 and 30 June 2021, the diluted earnings per share is equal to basic earnings per share, as there were no instruments outstanding that could have a dilutive effect on the Company's ordinary shares.

7. TRADE RECEIVABLES

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Trade receivables	104,264	82,889
Less: allowance for impairment of trade receivables	<u>(2,977)</u>	<u>(1,784)</u>
Trade receivables — net	<u>101,287</u>	<u>81,105</u>

Trade receivables all arise from sales of goods.

As at 30 June 2021 and 31 December 2020, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Within 30 days	76,866	31,216
Over 30 days and within 180 days	21,465	49,011
Over 180 days and within one year	3,645	963
Over one year and within two years	1,589	1,022
Over two years	699	677
	<u>104,264</u>	<u>82,889</u>

8. SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares issued and fully paid:

	Number of ordinary shares	Nominal value of share capital <i>HK\$</i>	Equivalent nominal value of share capital <i>RMB</i>	Share premium <i>RMB'000</i>
At 1 January 2021 and at 30 June 2021	<u>405,042,000</u>	<u>405,042</u>	<u>358,767</u>	<u>249,653</u>

9. TRADE AND OTHER PAYABLES

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Trade payables	47,220	45,845
Other payables	7,787	5,398
Staff salaries and welfare payables	4,708	5,624
Accrued taxes other than income tax	—	1,472
	<u>59,715</u>	<u>58,339</u>

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 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Within one year	46,753	45,428
Over one year and within two years	102	195
Over two years	<u>365</u>	<u>222</u>
	<u>47,220</u>	<u>45,845</u>

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

Neither the Company nor any of the subsidiaries of the Company purchased, redeemed or sold the listed securities of the Company during the six months ended 30 June 2021.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "CG Code"). Save as disclosed below, the Company has complied with the CG Code throughout the six months ended 30 June 2021.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive and Mr. JIN Jianxin ("Mr. JIN") currently performs these two roles. Throughout the Group's business history, Mr. JIN, being a founder of the Group and a controlling shareholder of the Company, has held the key leadership position of the Group and has been deeply involved in the formulation of corporate strategies and management of the business and operations of the Group since its establishment.

Taking into account the consistent leadership within the Group, the Board believes that it is in the best interests of the Group and the shareholders of the Company as a whole to have Mr. JIN taking up both roles for effective and efficient overall strategic planning and continuation of the implementation of such plans for the Group. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively.

DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2021.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited interim results of the Group for the six months ended 30 June 2021 including the accounting principles and practices adopted by the Group.

DEFINITION

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

“Board”	the board of Directors
“China” or “PRC”	The People’s Republic of China and, except where the context requires and only for the purpose of this announcement, references to China do not include Taiwan, 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
“COVID-19”	The novel coronavirus disease 2019
“Director(s)”	director(s) of the Company
“Group”, “our Group”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing”	listing of Shares on Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“Share(s)”	ordinary shares of HK\$0.001 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USD”	United States dollars, the lawful currency of the United States

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

Hong Kong, 31 August 2021

As at the date of this announcement, the executive directors of the Company are Mr. JIN Jianxin and Mr. TIAN Dong; the non-executive director of the Company is Mr. SHAO Patrick; and the independent non-executive directors of the Company are Mr. LAI Chun Yu, Mr. YANG Herong and Mr. ZHOU Kai.