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KWUNG'S HOLDINGS LIMITED

曠世控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1925)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The Board hereby announces the annual results of the Group for the year ended 31 December 2021.

FINANCIAL HIGHLIGHTS

	2021	2020	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	631,395	472,179	33.7%
Gross profit	121,126	108,149	12.0%
Gross profit margin	19.2%	22.9%	-16.2%
Profit for the year	49,038	40,756	20.3%
Earnings per share (basic and diluted)	12.1 cents	10.2 cents	18.6%
Dividend proposed in respect of the year (per share)	–	–	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a prominent original design manufacturer and supplier of home fragrance products, innovative home products and home decoration products comprising our core products such as home fragrance candles and fragrance diffusers. Home fragrance products and innovative home products are widely used in people's daily life.

The revenue of the Group for the year ended 31 December 2021 amounted to approximately RMB631.4 million, with profit of approximately RMB49.0 million. In spite of the appreciation of RMB against United States dollars and the global COVID-19 pandemic throughout the year ended 31 December 2021, the Group achieved a growth in sales and profit.

The COVID-19 pandemic caused significant impact to the business of manufacturers around the globe, including but not limited to, area lockdown, limited capacity on logistics and also drop in demand from customers and a number of manufacturers closed down their factories and business over the past two years. The Group outperformed others under such hard time for manufacturing industries. Upon successful Listing, the Group is financially strong to tackle any temporary economic downturn. In addition, the Group is based in the PRC where it has a very successful domestic control over the COVID-19 pandemic and limited disturbance to the business and the operation resumed to normal within few months after the outbreak of the COVID-19 pandemic. Moreover, the Group maintained a diversified customer base and there was only slight impact to the Group's business for cancellation of orders from certain declining customers. The Group is also located in a region adjacent to the major port facilities with well-established road infrastructure and therefore the Group maintained a reasonable logistics arrangement even under the time of COVID-19 pandemic. The Group succeeded in securing more purchase order from the Group's existing customers after some factory close down by other manufacturers in countries in Southeast Asia region.

The Group has on-going monitoring on the exposure against the foreign exchange differences arising from United States dollars, the Group's billing currency to customers, and arrange foreign currency forward contracts with local financial institutions in the PRC to mitigate such foreign currency risk. The Group successfully reduced the financial impact and maintained a relatively stable profit level regardless of the appreciation of RMB against United States dollars during the current year.

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.

The Group launched an online showroom during the year ended 31 December 2020. The showroom displays various products for customers' selection and purchase, where our sales team will introduce the details of the product sizes and prices of the products on the online showroom. The online showroom has been very helpful for the Group's business in the midst of restrictions on social activities such as trade fair and exhibition events.

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. In spite of the keen competition, the Group has further solidified the leading industry position of the production and sales of its home fragrance candles and fragrance diffusers over the last 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.

The Group has a strong technical research and development team. As of 31 December 2021, the Group has obtained 73 invention patent, utility model and appearance design patent. The Group has enhanced the technical research and development and product development of personal-care products, strived to make a technology breakthrough in, among other things, ingredients of essential oils and time of fragrance depositing, and promoted personal-care daily products with brand-new ingredients at the market, such as perfume, shampoos, bath foam and moisturisers of essential oils.

The Group 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 actively planning for the construction of a new production line so as to enhance the ability of quantitative manufacturing and realise flexible production effectively based on the customized needs of customers and the order structure.

FINANCIAL REVIEW

Revenue

The Group's revenue mainly arises from the export sales of the Group's candle products, home fragrance products and home accessories during the year. It increased by approximately RMB159.2 million or 33.7% to approximately RMB631.4 million for the year ended 31 December 2021 from approximately RMB472.2 million for the year ended 31 December 2020. The Group secured more purchase orders from the existing customers, resulting in revenue growth for the year ended 31 December 2021. There has been negative impact to the economy in many countries during the time of COVID-19 pandemic and some of the manufacturers in countries in Southeast Asia region, being the Group's competitors, have closed down their businesses, causing the Group's existing customers to increasingly rely on the Group in supplying products as original design manufacturer of candle products, home fragrance products and home decoration products.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB13.0 million or 12.0% to approximately RMB121.1 million for the year ended 31 December 2021 from approximately RMB108.1 million for the year ended 31 December 2020. Such increase in gross profit was mainly because of the increase in the Group's revenue during the year ended 31 December 2021.

The Group's gross profit margin decreased to 19.2% for the year ended 31 December 2021 from approximately 22.9% for the year ended 31 December 2020. Such decrease was mainly due to the depreciation of United States dollars against RMB during the year ended 31 December 2021 as mentioned above, which resulted in a decrease in equivalent unit price in RMB but did not bring corresponding decrease in the production costs of the Group since the majority of the Group's suppliers are local enterprises in the PRC and the Group was billed in RMB, and also the increase in cost of raw materials consumed for production of the Group's products.

Other income

The Group's other income mainly comprises income from government grants in the PRC and also the rental income earned from leasing the Group's properties. The increase in other income during the current year was mainly contributed by the grant from the local government in the PRC in relation to the successful Listing.

Administrative expenses

The Group's administrative expenses mainly comprise payroll costs for management team and supporting staff, 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 RMB4.9 million or approximately 9.6% to approximately RMB55.7 million for the year ended 31 December 2021 from approximately RMB50.8 million for the year ended 31 December 2020. Increase in administrative expenses was mainly due to increased administrative staff to support the business growth and also the new production plant in Yinzhou District, Ningbo City, Zhejiang Province, the PRC, and also there was subsidy to the Group from the social insurance fund in respect of the COVID-19 pandemic for the year ended 31 December 2020 which was not available for the year ended 31 December 2021.

Selling and marketing expenses

The Group's selling and marketing expenses mainly comprise payroll costs for staff in the sales departments, sample inspection, 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 RMB2.0 million or 11.3% to approximately RMB19.7 million for the year ended 31 December 2021 from approximately RMB17.7 million for the year ended 31 December 2020. Increase in the Group's selling and marketing expenses for the current year was mainly due to the operating costs for the newly set up self-operated retail stores.

Other gains/losses, net

The Group's other gains/losses, net mainly comprise net foreign exchange differences, net fair value changes on foreign exchange forward contracts, net fair value changes on wealth management products issued by commercial banks and also donation expenses.

There was an increase in other net gains of approximately RMB2.0 million to approximately RMB2.2 million for the year ended 31 December 2021 from approximately RMB0.1 million for the year ended 31 December 2020.

The improvement of the net other gains for the year ended 31 December 2021 was mainly due to the better arrangement made against foreign currency exposure arising from purchase orders from overseas customers, which are mainly denominated in United States dollars. Changes in exchange rate of RMB against United States dollars causes foreign exchange differences arising from the trade receivable balances denominated in United States dollars. Such foreign exchange exposure is managed by entering into foreign exchange forward contracts with the financial institutions in the PRC. The foreign exchange exposure can be perfectly eliminated if the maturity dates of the foreign exchange forward contracts match with the sales cycle of purchase orders from overseas customers and if the underlying amounts of the foreign exchange forward contracts match with the total amount of purchase orders from overseas customers. There has been improvement in determining the maturity dates and also the underlying amounts for the foreign exchange forward contracts, resulting in net foreign exchange gains for the year ended 31 December 2021.

Net finance income/(costs)

The Group's net finance income/(costs) represents the interest income earned from financial institutions and the Group's finance costs comprising interest charged on short-term bank borrowings and also the interest expense component on the operating lease arrangement in relation to the Group's leased production facilities.

There were interest expenses on borrowings of approximately RMB0.5 million incurred for the year ended 31 December 2021, which arose from the borrowings of RMB80 million advanced to the Company during the year ended 31 December 2021. No interest expenses on borrowings was incurred for the year ended 31 December 2020 as there was no bank borrowing arranged during the year ended 31 December 2020.

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

Income tax provision of the Group in respect of operations in Hong Kong has been calculated at the applicable tax rate on the estimated assessable profits for the year ended 31 December 2021, based on the existing legislation, interpretations and practices in respect thereof. The statutory tax rate was 16.5% for the year ended 31 December 2021. Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong during the year. The first HK\$2,000,000 of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

(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 2021 and 2020.

Ningbo Kwung's was qualified as a "High and New Technology Enterprise" since 2008 and renewed its qualification in December 2020, and it is subject to a reduced preferential corporate income rate of 15% from 2020 to December 2023 according to the applicable tax preference applicable to the High and New Technology Enterprise.

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 2021 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 years ended 31 December 2021 and 2020.

There was a decrease in the Group's income tax expense by approximately RMB0.2 million or 3.1% to approximately RMB7.1 million for the year ended 31 December 2021 from approximately RMB7.3 million for the year ended 31 December 2020. Such decrease was mainly due to more research and development expenses claimed for tax deduction, for which 175% of such expenses can be deducted for calculating the assessable profits arising in the PRC.

The overall effective tax rate of the Group dropped from approximately 15.2% for the year ended 31 December 2020 to approximately 12.6% for the year ended 31 December 2021. The decrease in the effective tax rate for the year ended 31 December 2021 was mainly due to more research and development expenses claimed for the year ended 31 December 2021 which enjoy a higher tax deduction rate as mentioned above.

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 increase in the net carrying amount of the Group's property, plant and equipment by approximately RMB0.5 million during the year ended 31 December 2021 which was mainly due to the net impact of the costs incurred for the further renovation of the new production plants in Yinzhou District, Ningbo City, Zhejiang Province, PRC and the depreciation charge for the existing items for the current year.

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.

Decrease in balance during the year ended 31 December 2021 was mainly due to depreciation charge in relation to the leased properties in Yinzhou District, Ningbo City, Zhejiang Province, PRC, during the current year.

Investment properties

The Group's investment properties represent the building located in Ningbo City, Zhejiang Province, the PRC, owned by the Group. Such building was used by the Group for production in the prior years and has been leased to independent third parties as warehouses starting 2020. The Group has completed the setup of the new production facilities in Yinzhou District, Ningbo City, Zhejiang Province, PRC, during the year ended 31 December 2020, releasing new and additional production capacity for the Group. The Group started leasing some vacant spaces in the old production plants to independent third parties for generating some rental income since 2020 and the Group further leased extra spaces out after consolidating some functions into the production plants in Yinzhou District, Ningbo City, Zhejiang Province, PRC during the year ended 31 December 2021, causing a transfer of asset values of approximately RMB3.2 million from property, plant and equipment to investment properties during the year ended 31 December 2021.

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 RMB34.6 million or 62.9% to approximately RMB89.6 million as at 31 December 2021 from approximately RMB55.0 million as at 31 December 2020 which was mainly due to the pile up of some raw materials for the upcoming production plan in the first quarter of 2022. In addition, there was an increased balance of finished goods as at 31 December 2021 which were pending to be delivered to the customers. The growth of the Group's sales during the year ended 31 December 2021 caused an increase in overall level of finished goods, and also the outbreak of COVID-19 has impact on the freight arrangement across countries resulting in delay in delivery of finished goods to overseas customers. Most of the Group's finished goods have been delivered to the customers up to the date of this announcement.

Trade receivables

Trade receivables balance as at 31 December 2021 mainly represented outstanding balance from the Group's overseas customers. There was an increase in trade receivables balance before allowance for impairment of approximately RMB68.0 million or 82.0% from approximately RMB82.9 million as at 31 December 2020 to approximately RMB150.9 million as at 31 December 2021. The Group experienced increased sales in the 2nd half of the year, causing an increase in the trade receivables as at 31 December 2021 as compared to the balance as at 31 December 2020.

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 RMB4.1 million was recorded as at 31 December 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, recoverable value-added tax and deposits paid.

There was an increase in the balance of approximately RMB16.7 million or 105.7% to approximately RMB32.5 million as at 31 December 2021 from approximately RMB15.8 million as at 31 December 2020. The amounts advanced to suppliers was utilised to a greater extent as at 31 December 2020 to facilitate the then production plan and the Group maintained the prepayment amounts to a normal level as at 31 December 2021 for routine arrangements with suppliers, resulting in an increase in the Group's prepayment balance. In addition, there was an increase in recoverable value-added tax as at 31 December 2021 as a result of the increase in inventory balance.

Financial assets/liabilities at fair value through profit or loss

The Group arranges foreign currency forward contracts with commercial banks in PRC in respect of the exchange rate of RMB against United States dollars in response to the Group's foreign exchange exposure arising from the sales to the Group's overseas customers, which is denominated in United States dollars.

The Group recorded unrealised assets arising from the foreign forward contracts as at 31 December 2020 and 2021 as a result of an appreciation of RMB against United States dollar throughout the years ended 31 December 2020 and 2021.

Cash and cash equivalents

The balance of cash and cash equivalents as at 31 December 2021 comprised cash deposited into financial institutions in the PRC and Hong Kong.

There was an increase in the balance of approximately RMB89.0 million or 80.4% to approximately RMB199.7 million as at 31 December 2021 from approximately RMB110.7 million as at 31 December 2020. Such increase in balance was mainly contributed by the bank borrowings of RMB80 million advanced to the Group during the year ended 31 December 2021 for general working capital purpose.

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.

There was an increase in the balance of approximately RMB19.7 million or 33.8% to approximately RMB78.1 million as at 31 December 2021 from approximately RMB58.3 million as at 31 December 2020. The change in balance was mainly due to more purchase of raw materials from suppliers in the fourth quarter of the year as a result of higher production volumes for fulfilling purchase orders from the Group's overseas customers and larger payable amounts for employee benefits for December 2021 as a result of the increase in the Group's production size.

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 RMB3.2 million to approximately RMB2.8 million as at 31 December 2021 from approximately RMB5.9 million as at 31 December 2020 as a result of settlement to the lessors during the year ended 31 December 2021.

RECENT DEVELOPMENT

Expansion of production capacity

The Group has completed the setup of the new production base in Yinzhou District, Ningbo City, Zhejiang Province, the PRC during the year ended 31 December 2020 and it has been in full operation. In order to support the continuous growth of the Group's business and also the upgrade of products, the Group starts exploring an location in the PRC to set up another new production base, the purpose of which is not only to expand the production capacity, but also to introduce more advanced equipment for production of new products. The Group targets to secure the location in 2022 and complete the construction of the new production plant by the end of 2024.

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 and better serve the Group's major customers and enlarge the customer base in the Group's major market; (ii) strengthen the Group's research and development capabilities to enrich the Group's product offering and increase the overall competitiveness; (iii) upgrade the Group's information system and logistics capacities to increase operational efficiency; and (iv) enhance the Group's sales and marketing efforts to enlarge market share, cultivate brand loyalty and capture potential business opportunities in markets outside Europe.

FINANCIAL INFORMATION

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

Consolidated statement of comprehensive income
Year ended 31 December 2021

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
Revenue	3	631,395	472,179
Cost of sales	4	(510,269)	(364,030)
Gross profit		121,126	108,149
Administrative expenses	4	(55,701)	(50,787)
Selling and marketing expenses	4	(19,683)	(17,704)
Net impairment losses on financial assets		(2,454)	(830)
Other income	5	10,871	8,600
Other gains/(losses), net	6	2,156	135
Operating profit		56,315	47,563
Finance income		491	902
Finance costs		(691)	(403)
Finance income/(costs), net	7	(200)	499
Profit before income tax		56,115	48,062
Income tax expense	8	(7,077)	(7,306)
Profit for the year		49,038	40,756
Profit/(loss) for the year attributable to:			
– Owners of the Company		49,000	40,846
– Non-controlling interests		38	(90)
Other comprehensive (loss)/income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(2)	(63)
Total comprehensive income for the year		49,036	40,693
Total comprehensive income attributable to:			
– Owners of the Company		48,998	40,796
– Non-controlling interests		38	(103)
Earnings per share for profit attributable to owners of the Company – Basic and diluted	9	12.1 cents	10.2 cents

Consolidated statement of financial position

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		46,015	45,467
Right-of-use assets		9,812	13,028
Investment properties		7,913	4,995
Intangible assets		4,371	4,763
Deferred income tax assets		388	510
		<hr/>	<hr/>
Total non-current assets		68,499	68,763
Current assets			
Inventories	10	89,639	55,031
Trade receivables	11	146,729	81,105
Prepayments, deposits and other receivables	12	32,458	15,753
Financial assets at fair value through profit or loss		2,408	44,726
Other current assets		7,013	20,000
Cash and cash equivalents		199,742	110,735
		<hr/>	<hr/>
Total current assets		477,989	327,350
		<hr/>	<hr/>
Total assets		546,488	396,113
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	13	359	359
Share premium	13	249,653	249,653
Other reserves		(26,148)	(29,847)
Retained earnings		150,342	105,043
		<hr/>	<hr/>
		374,206	325,208
Non-controlling interests		574	536
		<hr/>	<hr/>
Total equity		374,780	325,744
		<hr/>	<hr/>

	<i>Notes</i>	2021 RMB'000	2020 <i>RMB'000</i>
LIABILITIES			
Current liabilities			
Trade and other payables	14	78,068	58,339
Borrowings		80,000	–
Contract liabilities		4,955	3,819
Current income tax liabilities		5,622	2,276
Financial liabilities at fair value through profit or loss		278	–
Lease liabilities		2,544	3,759
		<hr/>	<hr/>
Total current liabilities		171,467	68,193
		<hr/>	<hr/>
Non-current liabilities			
Lease liabilities		241	2,176
		<hr/>	<hr/>
Total liabilities		171,708	70,369
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		546,488	396,113
		<hr/> <hr/>	<hr/> <hr/>

Notes:

1. BASIS OF PREPARATION

The financial information is extracted from the Group's consolidated financial statements which have been prepared in accordance with HKFRSs and under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value. The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2021.

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

2. NEW STANDARD AND AMENDMENTS NOT YET ADOPTED

A number of new standards, and amendments had been issued but were not mandatory for the financial year beginning on 1 January 2021 and have not been early adopted by the Group.

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

3. REVENUE

Revenue mainly comprises of proceeds from selling goods. An analysis of the Group's revenue by category for the years ended 31 December 2021 and 2020 is as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue from customers		
Candles	397,465	299,644
Home fragrance	115,799	83,155
Home accessories	118,131	89,380
	<u>631,395</u>	<u>472,179</u>

4. EXPENSES BY NATURE

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and consumables used	217,658	158,277
Subcontracting costs	248,034	171,680
Employee benefit expenses	62,853	51,294
Transportation expenses	16,690	13,738
Utilities	3,768	2,873
Depreciation of property, plant and equipment	8,897	7,850
Depreciation of investment properties	298	111
Amortisation of intangible assets	652	639
Amortisation and depreciation of right-of-use assets	3,915	4,513
Taxes and surcharges	2,096	2,510
Travelling expenses	1,010	1,005
Operating lease expenses on short-term leases	1,944	1,706
Business entertainment expenses	884	673
Sample inspection and express fees	2,632	4,678
Advertising and promotion expenses	4,783	3,876
Auditor's remuneration (annual audit service)	1,500	1,311
Statutory audit fees	101	73
Other service fees	3,591	1,755
Listing expenses	–	512
Office expenses	1,291	1,228
Insurance expenses	194	172
Sales commission	976	1,323
Others	1,886	724
	<u>585,653</u>	<u>432,521</u>

5. OTHER INCOME

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Other income		
Rental income	1,379	514
Government grants	8,319	7,700
Others	1,173	386
	<u>10,871</u>	<u>8,600</u>

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

6. OTHER GAIN/(LOSSES) – NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment – net	(8)	(72)
Gains on disposal of right-of-use assets, net	6	118
Net foreign exchange losses	(4,328)	(17,339)
Net realised and unrealised fair value gains on foreign exchange forward contracts	7,726	17,357
Donation expenses	(780)	(1,000)
Others	(460)	1,071
	<u>2,156</u>	<u>135</u>

7. FINANCE INCOME/(COSTS) – NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Finance income		
Interest income	<u>491</u>	<u>902</u>
Finance costs		
Interest expenses on borrowings	(491)	–
Interest expenses on lease liabilities	<u>(200)</u>	<u>(403)</u>
	<u>(691)</u>	<u>(403)</u>
	<u>(200)</u>	<u>499</u>

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	4,252	4,773
– Hong Kong profits tax	2,703	–
Deferred income tax		
– PRC corporate income tax	<u>122</u>	<u>2,533</u>
Income tax expense	<u>7,077</u>	<u>7,306</u>

9. EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted number of ordinary shares deemed to be in issue during 2021 and 2020, respectively. The weighted average number of ordinary shares had been retrospectively adjusted for the effects of capitalisation issue on 13 January 2020.

The Company did not have any potential ordinary shares outstanding during 2021 and 2020.

	Year ended 31 December	
	2021	2020
Profit attributable to owners of the Company (<i>RMB'000</i>)	49,000	40,846
Weighted average number of ordinary shares in issue	405,042,000	400,461,481
Basic earnings per share for profit attributable to the owners of the Company (<i>expressed in RMB cents per share</i>)	<u>12.1 cents</u>	<u>10.2 cents</u>

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

10. INVENTORIES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	44,632	25,427
Work in progress	6,760	3,688
Finished goods	39,114	26,028
Provision for impairment of inventories	(867)	(112)
	<u>89,639</u>	<u>55,031</u>

11. TRADE RECEIVABLES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables due from third parties	150,854	82,889
Less: allowance for impairment of trade receivables	(4,125)	(1,784)
Trade receivables – net	<u>146,729</u>	<u>81,105</u>

Trade receivables all arise from sales of goods.

As at 31 December 2021 and 2020, the gross carrying amounts of trade receivables before provision are denominated in the following currencies:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
United States dollars	107,529	77,908
RMB(i)	43,325	4,981
	150,854	82,889

(i) As at 31 December 2021, RMB40,094,278 was due from oversea clients who made the payment via Cross-border Interbank Payment System.

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

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	48,710	31,216
Over 30 days and within 180 days	94,201	49,011
Over 180 days and within one year	4,188	963
Over one year and within two years	2,397	1,022
Over two years	755	637
Over three years	603	40
	150,854	82,889

As at 31 December 2021 and 2020, the fair value of trade receivables approximated their carrying amounts. Sales of products are received in accordance with the terms of the relevant sales agreements, and due for payment upon the issuance of invoice.

The Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be 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 analysed. As at 31 December 2021 and 2020, the Group did not hold any collateral as security over these debtors.

	31 December	31 December
	2021	2020
	ECL Rate	ECL Rate
Within 30 days	0.17%	0.14%
Over 30 days and within 180 days	0.36%	0.32%
Over 180 days and within one year	24.40%	32.26%
Over one year and within two years	55.17%	58.33%
Over two years	100.00%	100.00%

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

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	(1,784)	(957)
Provision for impairment	<u>(2,341)</u>	<u>(827)</u>
At the end of the year	<u><u>(4,125)</u></u>	<u><u>(1,784)</u></u>

12. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments		
– Advances to suppliers	16,566	5,619
– Prepaid value-added tax	<u>1,347</u>	<u>810</u>
	<u>17,913</u>	<u>6,429</u>
Other receivables		
– Deposits	2,103	892
– Advances to employees	815	858
– Recoverable value-added tax	11,630	7,313
– Amounts due from related parties	145	409
– Others	<u>177</u>	<u>64</u>
	<u>14,870</u>	<u>9,536</u>
Total	<u>32,783</u>	<u>15,965</u>
Less: Allowance for impairment of other receivables	<u>(325)</u>	<u>(212)</u>
	<u><u>32,458</u></u>	<u><u>15,753</u></u>

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

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	(212)	(209)
Provision for impairment	<u>(113)</u>	<u>(3)</u>
At the end of the year	<u><u>(325)</u></u>	<u><u>(212)</u></u>

13. SHARE CAPITAL AND SHARE PREMIUM

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

Ordinary shares issued and fully paid:

	Number of ordinary shares	Nominal value of shares <i>HK\$</i>	Equivalent nominal value of shares <i>RMB</i>	Share premium <i>RMB'000</i>
At 1 January 2020	70,000	70	61	163,681
Shares issued pursuant to capitalisation of shares (<i>note a</i>)	299,930,000	299,930	265,615	(266)
New shares issued pursuant to the share offer (<i>note b</i>)	105,042,000	105,042	93,091	106,863
Dividend paid	N/A	N/A	N/A	(20,625)
	<u>405,042,000</u>	<u>405,042</u>	<u>358,767</u>	<u>249,653</u>
At 31 December 2020, 1 January 2021 and 31 December 2021	<u>405,042,000</u>	<u>405,042</u>	<u>358,767</u>	<u>249,653</u>

Notes:

- (a) Pursuant to the proposed offering of the Company's shares, on 16 January 2020, the Company issued additional 299,930,000 shares, credited as fully paid, to the existing shareholders of the Company, by way of capitalisation of HK\$299,930 (approximately RMB266,000) standing to the credit of the Company's share premium account.
- (b) On 16 January 2020, the shares of the Company were listed on the Stock Exchange. In connection with the listing, 100,000,000 shares of HK\$0.001 each were issued at the offer price of HK\$1.28 with gross proceeds of HK\$128,000,000 (approximately RMB113,356,000). In the current financial period, approximately RMB89,000 was credited to the share capital account and approximately RMB101,065,000 net of expenses related to issuance of shares of approximately RMB12,202,000 was credited to the share premium account.

On 5 February 2020, 5,042,000 over-allotment shares were issued and allotted by the Company at HK\$1.28 with proceeds of HK\$6,454,000 (approximately RMB5,801,000). In the current financial period, approximately RMB5,000 was credited to the share capital account and approximately RMB 5,797,000 was credited to the share premium account.

14. TRADE AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables due to third parties	63,276	45,845
Other payables due to:	6,027	5,398
– related parties	3	–
– third parties	6,024	5,398
Staff salaries and welfare payables	6,977	5,624
Accrued taxes other than income tax	1,788	1,472
	<u>78,068</u>	<u>58,339</u>

As at 31 December 2021 and 2020, all trade and other payables of the Group were non-interest bearing.

15. DIVIDENDS

	Year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends	–	20,625

During the year ended 31 December 2020, the Company declared and paid dividends of HK\$0.06 per share to its then shareholders.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2021.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES 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 year ended 31 December 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 for the year ended 31 December 2021.

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

Note: A new CG Code came into effect on 1 January 2022. As the period under review in this announcement is for the year ended 31 December 2021, the CG Code described in this announcement is the CG Code in effect during the year ended 31 December 2021.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial information in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2021 as set out in this announcement has been agreed by the Company's external auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

REVIEW BY THE AUDIT COMMITTEE

The results of the Company for the year ended 31 December 2021 has been reviewed by the audit committee of the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Friday, 17 June 2022. The notice of the AGM will be issued and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 14 June 2022 to Friday, 17 June 2022, both days inclusive, for the purpose of ascertaining the entitlement of the shareholders of the Company to attend and vote at the AGM. In order to be entitled to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 13 June 2022.

DEFINITION

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

“AGM”	the annual general meeting of the Company to be held in Hong Kong on Friday, 17 June 2022
“Board”	the board of Directors
“China” or “PRC”	The People's Republic of China and, except where the context requires and only for the purpose of this announcement, references to China do not include Taiwan, Hong Kong or the Macao Special Administrative Region of the PRC
“Company”	Kwung's Holdings Limited
“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
“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
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

Hong Kong, 31 March 2022

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