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KWUNG'S AROMA HOLDINGS LIMITED

曠世芳香控股有限公司

(Formerly known as Kwung's Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1925)

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

The Board hereby announces the unaudited interim results of the Group for the six months ended 30 June 2024.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Change
	2024	2023	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	334,205	302,076	10.6%
Gross profit	81,505	66,763	22.1%
Gross profit margin	24.4%	22.1%	10.4%
Total comprehensive income attributable to owners of the Company	50,881	30,505	66.8%
Earnings per share (basic and diluted) (expressed in RMB cents)	12.6	7.5	66.8%
Dividend declared in respect of the period (HK\$)	0.09	–	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND RECENT DEVELOPMENT

The Group provides solutions to customers on design and manufacture of home decoration products and home fragrance products, comprising core products such as home fragrance candles and home fragrance diffusers, which are considered to be widely used in people's daily life.

The Group has set up a production plant in Yinzhou District, Ningbo City, Zhejiang Province, the PRC (the “**New Yinzhou Plant**”), which has started operating since 2020. The New Yinzhou Plant has been equipped with more advanced and automated production equipment and better logistics solution. The Group further enhanced its production efficiency by implementing “Informatisation” on the supply chain and production cycle, which has been recognised by the Group's customer as the production time can be further shortened.

In addition to the New Yinzhou Plant, the Group has also taken a significant step to establish a new comprehensive production base in Wuhu City, Anhui Province, the PRC. Following the acquisition of a piece of land located at the Sanshan Economic Development Zone* (三山經濟開發區) with a total site area of approximately 96,000 sq.m. (the “**Land**”) in August 2022, the Group has also entered into a construction agreement in January 2023 for design and construction of production facilities, including warehouses, workshop buildings and staff quarters, with a construction area of approximately 87,000 sq.m. on the Land. The total consideration for this new production base is estimated to be more than RMB180 million and the production is expected to be released in the fourth quarter of 2024.

FINANCIAL REVIEW

Revenue

The Group's revenue mainly arises from the sales of the Group's candles products, home fragrance products and home accessories, and trading of wax during the six months ended 30 June 2024.

There is an increase in revenue of approximately RMB32.1 million or approximately 10.6% to approximately RMB334.2 million for the six months ended 30 June 2024 from approximately RMB302.1 million for the six months ended 30 June 2023. The increase in revenue was mainly because of the increase in purchase orders from existing customers, and also the appreciation of USD against RMB during the current period, causing the sales of products denominated in USD to generate more revenue.

Gross profit and gross profit margin

The Group's gross profit margin increased to approximately 24.4% for the six months ended 30 June 2024 from approximately 22.1% for the six months ended 30 June 2023. The increase in gross profit margin was mainly due to the depreciation of RMB against USD during the six months ended 30 June 2024. Purchase orders received from customers are denominated in USD while the majority of the Group's suppliers are local enterprises in the PRC and the Group was billed in RMB, causing a positive effect to the Group's gross profit margin under the depreciation of RMB against United States dollars.

Other income

The Group's other income mainly represents net income on bulk sales of raw materials to other market participants, income from government grants in the PRC and rental income for leasing a warehouse in Ningbo City, Zhejiang Province, the PRC, to an independent third party.

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 expense increased by approximately RMB14.3 million or approximately 49.1% to approximately RMB43.4 million for the six months ended 30 June 2024 from approximately RMB29.1 million for the six months ended 30 June 2023, which was mainly due to increase in the headcount and payroll costs for supporting the business growth and the operation of the additional production base, and also increase in costs in relation to the office rental after disposal of the self owned properties during the current period.

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.

The selling and marketing expenses increased by approximately RMB1.7 million or approximately 9.5% to approximately RMB19.0 million for the six months ended 30 June 2024 from approximately RMB17.4 million for the six months ended 30 June 2023 as a result of more efforts put on sales channel during the current period.

Other gain

Balance mainly represents (i) the gain on disposal of a subsidiary which holds certain land and properties in Ningbo City, Zhejiang Province, the PRC, amounting to approximately RMB21.7 million (please refer to the announcement of the Company dated 30 January 2024 for details); (ii) foreign exchange gains of approximately RMB5.5 million; and (iii) a fair value gain on an investment of approximately RMB2.8 million (please refer to the announcement of the Company dated 2 January 2024 for details). Increase in balance was mainly due to the one-off gain on disposal of s subsidiary during the current period.

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 interests charged on bank loans and interest expense component on the operating lease arrangement in relation to the Group's leased production facilities and retail stores.

Increase in finance income during the current period was mainly because of more interests earned through some fixed deposit arrangement during the current period, and decrease in finance costs during the current period was mainly because the Group negotiated with banks for some more cost effective banking facilities during the current period.

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 expenses by approximately RMB1.4 million or 22.2% to approximately RMB7.7 million for the six months ended 30 June 2024 from approximately RMB6.3 million for the six months ended 30 June 2023. Such increase was mainly due to the increase in the Group's profit before tax for the six months ended 30 June 2024.

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 RMB39.5 million during the six months ended 30 June 2024, which was mainly due to the net impact of the construction costs for the new production base in Wuhu City, Anhui Province, the PRC and the depreciation charge for the six months ended 30 June 2024.

Investment properties

Balance represented the costs of buildings located in Ningbo City, Zhejiang Province, the PRC, owned by the Group. Those buildings were leased to independent third parties before and were disposed of during the current period.

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 the net carrying amounts of the properties leased by the Group.

There was a slight decrease in the net carrying amounts of the Group's right-of-use assets by approximately RMB1.2 million during the six months ended 30 June 2024, which was mainly due to the amortisation charge of the land use rights and the carrying amounts of the leased properties during the current 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 RMB87.6 million or 127.6% to approximately RMB156.3 million as at 30 June 2024 from approximately RMB68.7 million as at 31 December 2023 which was mainly due to some finished goods pending for delivery for the customers as at 30 June 2024, and the increased stock level of raw materials for upcoming production plans in the third quarter of 2024.

Trade receivables

Trade receivables balance as at 30 June 2024 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 RMB17.7 million or 11.5% from approximately RMB154.2 million as at 31 December 2023 to approximately RMB171.9 million as at 30 June 2024. The increase in the Group's trade receivables balance was in line with the growth in sales during the current period.

Most of the Group's trade receivables balance were aged within 180 days as at 30 June 2024. The Group experienced limited bad debt issues over the years and a small provision for impairment of trade receivables of approximately RMB5.8 million was recorded as at 30 June 2024, 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 prepayments, deposits and other receivables of approximately RMB63.7 million or 194.9% from approximately RMB32.7 million as at 31 December 2023 to approximately RMB96.3 million as at 30 June 2024 mainly due to more prepayments to suppliers for the purchase of raw materials as at 30 June 2024.

Financial assets at fair value through profit or loss

The Group subscribes certain private funds in the PRC using idle cash totalling RMB100 million. There was a fair value gain of approximately RMB2.8 million for the investment in those private funds during the six months ended 30 June 2024.

Cash and cash equivalents

The balance of cash and cash equivalents as at 30 June 2024 comprised cash deposited into financial institutions in the PRC and Hong Kong.

The Group maintains a sufficient level of cash and bank balance to support the operation of the manufacturing and sales function of the Group, and also the construction of the new comprehensive production base in Wuhu City, Anhui Province, the PRC.

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 trade and other payables of approximately RMB106.1 million from approximately RMB169.1 million as at 31 December 2023 to approximately RMB275.2 million as at 30 June 2024. Such increase mainly arose from the purchase of more raw materials for the upcoming production plans in the third quarter of 2023, and also the costs arising from the construction of the new comprehensive production base in Wuhu City, Anhui Province, the PRC.

Borrowings

The Group had debt financing through bank borrowings for raising general working capital of the Group. Certain bank borrowings of the Group are short-term term loans arranged with the banks in the PRC while some bank borrowings of the Group are related to the bank acceptance bills discounted with banks in the PRC.

More borrowings were arranged during the six months ended 30 June 2024 for additional general working capital which is in line with the organic growth of the Group's existing business.

FINANCIAL INFORMATION

Interim condensed consolidated statement of comprehensive income

Six months ended 30 June 2024

	Notes	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Revenue	3	334,205	302,076
Cost of sales		<u>(252,700)</u>	<u>(235,313)</u>
Gross profit		81,505	66,763
Administrative expenses		(43,396)	(29,110)
Selling and marketing expenses		(19,043)	(17,391)
Net impairment losses on financial assets		(3,882)	1,844
Other income		5,409	3,339
Other gains, net		<u>29,978</u>	<u>12,435</u>
Operating profit		<u>50,571</u>	<u>37,880</u>
Finance income		8,555	1,580
Finance costs		<u>(523)</u>	<u>(2,682)</u>
Finance costs, net		<u>8,032</u>	<u>(1,102)</u>
Profit before income tax		58,603	36,778
Income tax expenses	4	<u>(7,694)</u>	<u>(6,295)</u>
Profit for the period		<u><u>50,909</u></u>	<u><u>30,483</u></u>
Profit for the period attributable to:			
Owners of the Company		50,881	30,459
Non-controlling interests		<u>28</u>	<u>24</u>

	<i>Note</i>	2024 RMB'000 (Unaudited)	2023 <i>RMB'000</i> (Unaudited)
Other comprehensive income:			
Items that maybe reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		—	57
		<u>—</u>	<u>57</u>
Total comprehensive income for the period		50,909	30,540
		<u>50,909</u>	<u>30,540</u>
Total comprehensive income attributable to:			
Owners of the Company		50,881	30,505
Non-controlling interests		28	35
		<u>28</u>	<u>35</u>
Earnings per share for profit attributable to owners of the Company – Basis and diluted (<i>expressed in RMB cents</i>)	6	12.6	7.5
		<u>12.6</u>	<u>7.5</u>

Interim condensed consolidated statement of financial position

As at 30 June 2024

		30 June	31 December
		2024	2023
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		204,300	164,801
Investment properties		–	7,159
Right-of-use assets		37,369	38,610
Intangible assets		5,238	5,642
Deferred income tax assets		766	1,149
		<hr/>	<hr/>
Total non-current assets		247,673	217,361
Current assets			
Inventories		156,272	68,653
Trade receivables	7	166,084	151,192
Prepayments, deposits and other receivables		96,319	32,662
Financial assets at fair value through profit or loss		102,798	–
Other current assets		25,935	100,590
Cash and cash in banks	8	189,437	183,765
		<hr/>	<hr/>
Total current assets		736,845	536,862
		<hr/>	<hr/>
Total assets		984,518	754,223
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Share capital	9	359	359
Share premium	9	206,813	206,813
Other reserves		(13,555)	(13,555)
Retained earnings		302,024	251,143
		<hr/>	<hr/>
		495,641	444,760
Non-controlling interests		793	795
		<hr/>	<hr/>
Total equity		496,434	445,555
		<hr/>	<hr/>

		30 June	31 December
		2024	2023
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
LIABILITIES			
Current liabilities			
Trade and other payables	10	275,199	169,055
Borrowings		172,171	90,000
Contract liabilities		15,110	6,337
Current income tax liabilities		10,887	7,505
Lease liabilities		2,428	1,122
Deferred tax liability		9,349	8,649
		<hr/>	<hr/>
Total current liabilities		485,144	282,668
		<hr/>	<hr/>
Non-current liabilities			
Borrowings		–	26,000
Lease liabilities		2,940	–
		<hr/>	<hr/>
Total non-current liabilities		2,940	26,000
		<hr/>	<hr/>
Total equity and liabilities		984,518	754,223
		<hr/> <hr/>	<hr/> <hr/>

Notes:

1. BASIS OF PREPARATION

The accounting policies and methods of computation used in the preparation of the unaudited interim financial information for the six months ended 30 June 2024 are consistent with those adopted in preparing the audited financial statements for the year ended 31 December 2023. In addition, the unaudited interim financial information includes applicable disclosure required by the Listing Rules.

2. CHANGES IN ACCOUNTING POLICIES

Except as described below, the accounting policies and methods of computation used in the preparation of the financial information for the six months ended 30 June 2024 are consistent with those adopted in preparing the annual audited consolidated financial statements for the year ended 31 December 2023.

(a) Adoption of new and revised standards

The Group has adopted the below amendments to standards and revised interpretation for the first time for its accounting period beginning on 1 January 2024.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
Amendments to HKFRS 16	Lease Liability in Sale and Leaseback
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

The adoption of these amendments to standards and revised interpretation did not have a material impact on the Group in the current or prior periods.

(b) Amendments to standards issued but not yet effective for the accounting period beginning on 1 January 2024 and not early adopted by the Group.

Amendments to HKAS 21	Lack of Exchangeability
Amendments HKFRS 10 and HKAS 28	Sale or contribution of Assets between an Investor and its Associate or Joint Venture

The Group is in the process of assessing the impact of these amendments to standards. The preliminary assessment indicated that the adoption of which is not expected to have any significant impact on the financial performance and the financial position of the Group.

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 2024 and 30 June 2023 is as follows:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from customers		
Candles	238,035	212,534
Home fragrance	68,921	43,840
Home accessories	27,249	45,702
	<u>334,205</u>	<u>302,076</u>

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax	5,908	5,706
Deferred income tax	1,786	589
	<u>7,694</u>	<u>6,295</u>

5. DIVIDEND

No dividends were paid, declared or proposed during the six months ended 30 June 2023 and 30 June 2024.

Subsequent to the end of the reporting period, a distribution of an interim dividend of HK\$0.09 per Share was declared by the Board on 30 August 2024.

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 2024 and 30 June 2023, respectively.

	Six months ended 30 June	
	2024 (Unaudited)	2023 (Unaudited)
Profit attributable to owners of the Company <i>(expressed in RMB'000)</i>	50,881	30,459
Weighted average number of ordinary shares in issue <i>(expressed in thousand)</i>	<u>405,042</u>	<u>405,042</u>
Basic earnings per share for profit attributable to the owners of the Company <i>(expressed in RMB cents per share)</i>	<u><u>12.6</u></u>	<u><u>7.5</u></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 2024 and 30 June 2023, 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 2024 (Unaudited)	As at 31 December 2023 (Audited)
Trade receivables	171,927	154,221
Less: allowance for impairment of trade receivables	<u>(5,843)</u>	<u>(3,029)</u>
Trade receivables – net	<u><u>166,084</u></u>	<u><u>151,192</u></u>

Trade receivables all arise from sales of goods.

As at 30 June 2024 and 31 December 2023, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 30 June 2024 (Unaudited)	As at 31 December 2023 (Audited)
Within 30 days	78,317	55,906
Over 30 days and within 180 days	81,312	95,252
Over 180 days and within one year	8,253	279
Over one year and within two years	1,278	746
Over two years	2,767	2,038
	<u>171,927</u>	<u>154,221</u>

8. CASH AND CASH IN HAND

	As at 30 June 2024 <i>RMB'000</i>	As at 31 December 2023 <i>RMB'000</i>
Cash in banks (i)	189,055	183,378
Cash in other financial institutions	342	372
Cash on hand	40	15
	<u>189,437</u>	<u>183,765</u>

(i) As at 30 June 2024 and 31 December 2023, cash in banks contains approximately RMB4,061,717 and RMB13,550,510 restricted cash deposits, respectively.

9. 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 31 December 2023 and at 30 June 2024	<u>405,042,000</u>	<u>405,042</u>	<u>358,767</u>	<u>206,813</u>

10. TRADE AND OTHER PAYABLES

	As at 30 June 2024 (Unaudited)	As at 31 December 2023 (Audited)
Trade payables	201,564	104,989
Other payables	60,674	52,027
Staff salaries and welfare payables	1,086	10,153
Accrued taxes other than income tax	11,875	1,886
	275,199	169,055

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 2024 (Unaudited)	As at 31 December 2023 (Audited)
Within one year	199,446	103,624
Over one year and within two years	1,107	1,062
Over two years	1,011	303
	201,564	104,989

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 2024.

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 C1 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 2024.

Pursuant to code provision C.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 to distribute an interim dividend in the amount of HK\$0.09 per Share, which will be paid in cash on or about 30 September 2024 to Shareholders whose names appear on the register of members of the Company on Tuesday, 17 September 2024.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to the interim dividend, the register of members of the Company will be closed from Monday, 16 September 2024 to Tuesday, 17 September 2024 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order for a Shareholder to qualify for the interim dividend, all properly completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Friday, 13 September 2024.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited interim results of the Group for the six months ended 30 June 2024 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 Aroma Holdings Limited (formerly known as Kwung’s Holdings Limited)
“Director(s)”	director(s) of the Company
“Group”, “our Group”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“ HKASs ”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants
“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 Aroma Holdings Limited
JIN Jianxin
Chairman and executive Director

Hong Kong, 30 August 2024

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, Ms. XU Qiong and Mr. ZHOU Kai.

* *For identification purpose only*