

# TARGET

## Intelligence Report

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### KWUNG'S HOLDINGS LTD:

#### THE LOGICAL FALLACY: NUMBERS PROVE

On skimming the financials of Kwung's Holdings Ltd () (Code: 1925, Main Board, The Stock Exchange of Hongkong Ltd), one may, initially, be inclined to gasp in utter amazement at the fact that it appears that the Net Profit Attributable to Shareholders in respect of the 2018 Financial Year had risen, Year-On-Year, by nearly 105 percent.

But, as the logical fallacy goes: Numbers Prove.

All is not as it may appear at first blush.

(More about this matter at the tail end of this report.)

#### The Business Of Kwung's Holdings Ltd

The business of Kwung's Holdings Ltd is that of a company, engaged in the design, manufacturer and supplier of home decoration products.

It was founded by Mr Jin Jian Xin () who incorporated, in the **People's Republic of China (PRC)**, the company, named Ningbo Kwung's Far East Candles and Giftware Company Ltd (). That was on or about January 4, 1999.

This company is now named Ningbo Kwung's Wisdom Art and Design Company Ltd (), and it is a wholly owned subsidiary of Kwung's Holdings Ltd.

Mr Jin Jian Xin was assisted in his quest by a Third Party, being a company, incorporated in the **United Kingdom (UK)**, legally owned by a husband-and-wife team, domiciled in the UK, one was told at Page 89 of the Global Offering Prospectus, dated Monday, December 30, 2019.

This abbreviated history of this Company was the start of Kwung's Holdings Ltd, a Company that, today, describes its activities as being a prominent supplier of its products, mainly to overseas markets.

The following is a business '**OVERVIEW**' of the Company, copied verbatim from Pages 113 and 114 of the Global Offering Prospectus:

*'Founded in 1999, we are a prominent original design manufacturer and supplier of Home Decoration Products targeting overseas markets. Our Home Decoration Products, comprising candles, home fragrance and home accessories, are widely used by consumers for improvements of indoor environment and atmosphere. Candles and home fragrance, being our principal products, are popular consumer products in ordinary people's daily life. There has been long history about their uses in different cultures. Throughout our history of around 20 years, we endeavoured to incorporate our creativity and ideas into our products, and take pride in the worldwide distribution of our products across overseas markets. According to the F&S Report, in 2018, in terms of revenue from the manufacturing and sales of candles, we ranked second in the PRC, and in terms of revenue from the manufacturing and sales of home fragrance, we ranked fourth in the PRC.'*

*'Candles and home fragrance are our principal products, which in aggregate accounted for 83.9%, 83.5%, 84.6% and 81.1%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. We, through our own production facilities and subcontracting arrangement, manufacture and sell candles and home fragrance in accordance with customers' orders. We also offer and sell home accessories produced by contract manufacturers to enrich our product portfolio. Home accessories accounted for 16.1%, 16.5%, 15.4% and 18.9%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. Leveraging on our efforts in identifying market trends, actively introducing and applying innovative ideas to the design of products and selling a wide range of products that suit our customers' varying needs, we have an edge over our competitors in terms of product offering. During the Track Record Period (the 42 months, ended June 30, 2019) we offered and sold over 1,000 types of Home Decoration Products of varying designs, sizes, aromatic scents and ingredients.'*

*‘We primarily conduct our business on ODM basis (Original Design Manufacturing). We market a selection of Home Decoration Products according to the fashion trends and consumers’ preference. Samples of our products are showcased in trade fairs and our showroom. We also contact or visit our customers or potential customers from time to time to market our products and identify business opportunity. Our customers may provide us with ideas to adapt our initial designs to suit their specific requirements. Once they have agreed on the designs and the quantity to order, we will arrange for production. For FY2016, FY2017, FY2018 and 6M2019, revenue derived from ODM sale accounted for 96.6%, 97.0%, 96.7% and 97.1%, respectively, of our total revenue.*

*‘To cultivate brand loyalty, increase brand awareness and diversify the source of our revenue, we, mainly through e-commerce platforms, distributors and our self-operated stores in the PRC, sell selected lines of self-branded products such as “Fumare” and “Aromart” branded candles and home fragrance in the PRC and Australia. Products sold under “Fumare” brand target the mid-to high-end consumer markets and products sold under “Aromart” brand target mid-end and mass markets. For FY2016, FY2017, FY2018 and 6M2019, revenue from branded sale accounted for 3.4%, 3.0%, 3.3% and 2.9%, respectively, of our total revenue.*

*‘Our business is export-oriented. During the Track Record Period, our products were sold to customers situated in over 20 countries and regions, including France, United Kingdom, Netherlands, Germany, Canada and Australia. Europe, our largest geographical market, accounted for 72.5%, 74.1%, 76.3% and 77.0%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019. During the Track Record Period, we derived a small proportion of our total revenue from our sales in the PRC, which accounted for 1.2%, 1.0%, 1.2% and 1.7%, respectively, of our total revenue for FY2016, FY2017, FY2018 and 6M2019.*

*‘Our major customers comprise retailers such as supermarket chains, home decoration stores and gift shops, targeting general consumer markets as well as wholesalers who import and sell our products to the overseas markets through their own distribution networks.*

*‘As at the Latest Practicable Date, we carried out our production activities at two production bases situated at Ningbo and Shaoxing, both in Zhejiang Province of the PRC, with a total gross floor area of 24,635.5 sq.m.(square metres) (which includes properties for production purpose only). We allocate production orders between Ningbo Plant and Shaoxing Plant according to the orders on hand, delivery schedule, technical complexity and the level of automation required for the relevant batch of the production. As at 30 June 2019, we employed 278 staff to operate our production facilities. During the Track Record Period, we outsourced production orders of certain products to independent third party contract manufacturers in the PRC. For FY2016, FY2017, FY2018 and 6M2019, subcontracting cost accounted for 46.7%, 47.9%, 46.1% and 51.3%, respectively, of our cost of sales...’.*

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