

# CHEERWIN

## 朝雲集團有限公司

### Cheerwin Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6601



## 2020 ANNUAL REPORT



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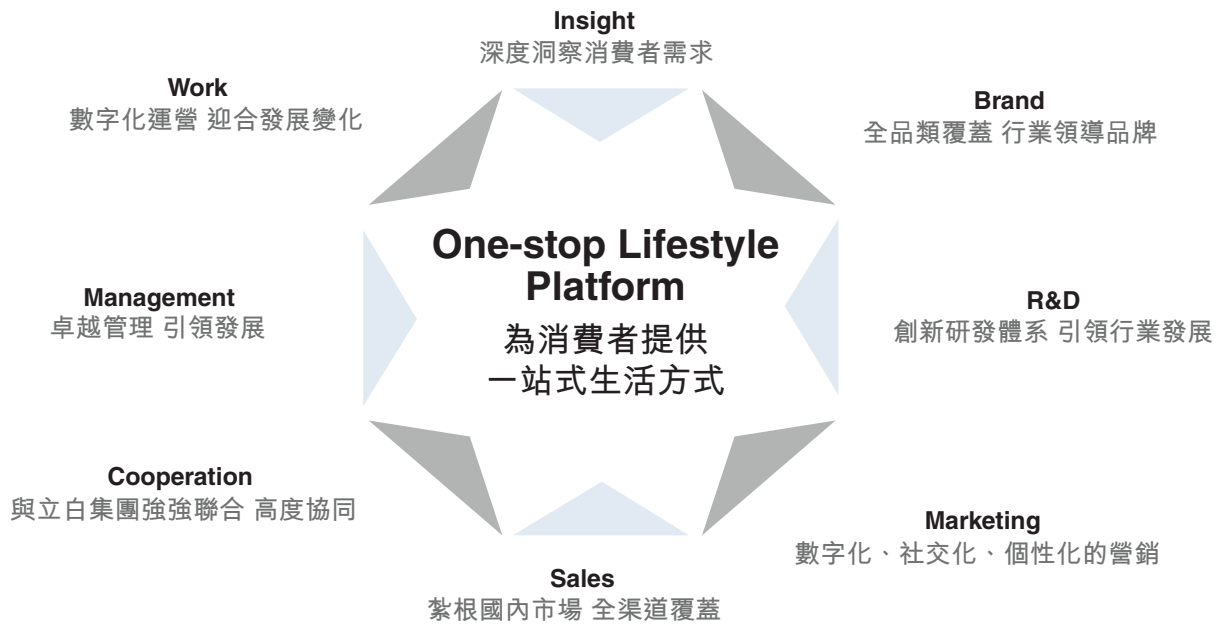




# COMPANY INTRODUCTION

We are a leading one-stop multi-category household care and personal care platform in China, developing and manufacturing a variety of household care, personal care and pet care products. We have quickly established leading positions in various sub-categories of personal care and pet care categories.

We are committed to providing consumers with a one-stop lifestyle offering through our focus on the eight pillars to underpin our organizational, operational and business structures, which we believe have delivered our success to date. The eight pillars are Insight, Brand, R&D, Marketing, Sales, Cooperation, Management and Work, under which we operate a fully integrated business process in delivering a one-stop lifestyle offering, from consumer and market research, research and development, procurement and production, to sales and marketing.



Our success to date has been driven by our ability to create new products and expand into new categories that meet consumer needs. We have successfully launched ten categories, covering household care, personal care and pet care product categories, and pioneered the launch of new products into the Chinese market. We provide consumers with one-stop comprehensive household care, personal care and pet care product offerings, mainly under seven core brands, namely, Vewin (威王), Superb (超威), Babeking (貝貝健), Cyrin (西蘭), Rikiso (潤之素), Naughty Buddy (倔強的尾巴) and Dux (德是), each targeting different aspects of household care demands and specific consumer segments.

We believe that with our leading market position, our popular household brands and attractive product offerings, together with our omni-channel distribution network, we are best positioned to capitalize on the strong expected growth opportunities ahead in the household care industry in China. With our commitment to creating a better life for Chinese families, we continue to provide consumers with effective, convenient and safe products through product upgrades.



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Ms. Chen Danxia (*Chairman and Chief Executive Officer*)  
Mr. Xie Rusong  
Mr. Zhong Xuyi

### Non-Executive Director

Mr. Chen Zexing

### Independent Non-Executive Directors

Dr. De-Chao Michael Yu  
Mr. Guo Sheng  
Mr. Chan Wan Tsun Adrian Alan

## AUDIT COMMITTEE

Mr. Chan Wan Tsun Adrian Alan (*Chairman*)  
Dr. De-Chao Michael Yu  
Mr. Guo Sheng

## REMUNERATION COMMITTEE

Mr. Guo Sheng (*Chairman*)  
Dr. De-Chao Michael Yu  
Ms. Chen Danxia

## NOMINATION COMMITTEE

Ms. Chen Danxia (*Chairman*)  
Dr. De-Chao Michael Yu  
Mr. Guo Sheng

## JOINT COMPANY SECRETARIES

Ms. Wang Dong  
Ms. Leung Shui Bing (*ACG, ACS*)

## AUTHORIZED REPRESENTATIVES

Ms. Chen Danxia  
Ms. Leung Shui Bing (*ACG, ACS*)

## AUDITOR

Deloitte Touche Tohmatsu  
*Registered Public Interest Entity Auditors*  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

## COMPLIANCE ADVISOR

HeungKong Capital Limited  
Suite 622, Ocean Centre  
Harbour City  
Tsim Sha Tsui  
Kowloon, Hong Kong

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HEAD OFFICE IN THE PRC

No.2, Luju Road, Liwan District  
Guangzhou, Guangdong Province  
China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two  
Times Square  
1 Matheson Street  
Causeway Bay  
Hong Kong

## THE CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## PRINCIPAL BANKS

Bank of China Limited  
Industrial and Commercial Bank of China Limited  
Agricultural Bank of China Limited  
Bank of China (Hong Kong) Limited  
Nanyang Commercial Bank, Limited

## STOCK CODE

6601

## COMPANY'S WEBSITE

[www.cheerwin.com](http://www.cheerwin.com)

## LISTING DATE

10 March 2021



# FINANCIAL SUMMARY

## RESULTS

	Year ended 31 December			
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Revenues	1,346,214	1,350,073	1,383,402	<b>1,702,154</b>
Gross profit	483,869	502,125	599,860	<b>742,582</b>
Profit before tax	228,634	241,562	232,216	<b>293,332</b>
Profit for the year	170,175	177,035	184,360	<b>232,909</b>
Adjusted profit for the year <sup>#</sup>	170,175	188,456	197,660	<b>261,623</b>
Earnings per share				
– Basic (cents)	17.19	17.88	18.70	<b>22.49</b>

# Adjusted for one-time charity donations and listing expenses.

## ASSETS, LIABILITIES AND EQUITY

	As at 31 December			
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Non-current assets	132,054	150,144	191,246	<b>210,157</b>
Current assets	1,078,459	862,361	1,034,632	<b>1,398,268</b>
Total assets	1,210,513	1,012,505	1,225,878	<b>1,608,425</b>
Equity and liabilities				
Equity attributable to owners of the Company	342,987	125,771	13,234	<b>247,681</b>
Non-controlling interests	–	–	696	<b>2,853</b>
Total equity	342,987	125,771	13,930	<b>250,534</b>
Non-current liabilities	5,618	2,833	6,880	<b>5,096</b>
Current liabilities	861,908	883,901	1,205,068	<b>1,352,795</b>
Total liabilities	867,526	886,734	1,211,948	<b>1,357,891</b>
Total equity and liabilities	1,210,513	1,012,505	1,225,878	<b>1,608,425</b>



# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Cheerwin Group Limited (the “**Company**”), together with its subsidiaries, (the “**Group**”), I am pleased to present our annual results for the year ended 31 December 2020.

China's household care industry is currently undergoing structural changes. The novel coronavirus (“**COVID-19**”) pandemic has caused an unprecedented impact on the global economy, and increased consumers' awareness of home and environment hygiene and demand for products that save housework time, while being able to safeguard personal health and hygiene. The Group's sales during the COVID-19 outbreak were not materially adversely affected and our business operations have been fully resumed since February 2020. In light of the above, COVID-19 outbreak has little impact on the Group's business for 2020. In addition, COVID-19 pandemic has further accelerated the growth of online shopping. Benefiting from its omni-channel sales and distribution network, development strategy of multi-category and multibrand, efficient R&D system and strength in product development and upgrade, customized marketing strategy, vertical, integrated and flexible supply chain and management team with multi-brand operation capabilities to well adapt to the accelerated change of consumers' preference regarding household care, personal care and pet care, the Group remains confident in continuing to be a leading one-stop multi-category household care and personal care platform in China.

## **OMNI-CHANNEL SALES AND DISTRIBUTION NETWORK: STRENGTHEN THE LEADING POSITION OF OFFLINE CHANNELS AND RAPIDLY DEVELOP ONLINE CHANNELS**

As of 31 December 2020, our offline channels covered approximately 620,000 points of sales of distributors and approximately 11,000 points of sales of retail shops. The revenue from offline distributors for the year ended 31 December 2020 increased by 11.5% as compared to that for the year ended 31 December 2019, the revenue from key account channels for the year ended 31 December 2020 increased by 24.9% as compared to that for the year ended 31 December 2019, and the revenue from offline channels for the year ended 31 December 2020 increased by 14.4% as compared to that for the year ended 31 December 2019.

As of 31 December 2020, our online channels covered 26 self-operated online stores, the revenue of which recorded an increase of 92.8% for the year ended 31 December 2020 as compared to that for the year ended 31 December 2019.

## **WITH AN EFFICIENT R&D SYSTEM AND A GOOD TRACK RECORD OF PRODUCT DEVELOPMENT: TO LEAD THE UPGRADE AND ITERATION OF HOUSEHOLD CARE INDUSTRY IN CHINA AND IMPLEMENT THE MULTI-CATEGORY DEVELOPMENT STRATEGY**

In-depth consumer insights relying on data-driven strength supports us in launching new categories. As of 31 December 2020, our integrated membership system has more than six million members and we created more than 300 user tags through accurate user portraits, which gives us valuable insights into consumer preferences and consumption behavior.

With an established brand incubation system, we have successfully built a portfolio of well-known brands. We strategically focus on creating a multi-brand portfolio of products to meet the requirements of different segments. In addition, we have established an efficient brand incubation and operational platform. Our data-enabled brand operation middle office provides data sharing and operational support for our different brands, and effectively improves our brand operation efficiency and new brand incubation capabilities.





## CHAIRMAN'S STATEMENT

We have a strong track record of creating new market segments and cultivating leading brands. For example, Naughty Buddy (倔強的尾巴) achieved first place among perfume and deodorant products in four months after its launch through our Tmall flagship store.

### **HIGHLY CUSTOMIZED MARKETING STRATEGY: UTILIZED DIGITALIZED AND SOCIALLY NATIVE TOOLS TO ENHANCE CONSUMER STICKINESS AND BRAND AWARENESS**

Based on our categories, brand matrix and the life cycle of different brands and products, we designed marketing strategies according to characteristics of different consumer groups, regions and distribution channels to improve marketing efficiency. We also utilize social media platforms to carry out promotional activities for different audiences of different brands.

Our online marketing activities provide us with opportunities to effectively interact with consumers, and enable us to collect sales data to facilitate us in making decisions regarding product design, marketing focus and manage inventory level, and drive constant improvements to our marketing and promotion process, as well as adaptations of attributes of merchandises most attractive to customers, thereby enhancing the desirability of our products.

### **VERTICAL, INTEGRATED AND FLEXIBLE SUPPLY CHAIN: STRONG SUPPORT OF R&D AND PRODUCTION**

We analyzed the market practice of stocking in advance for peak seasons in the household insecticides and repellents industry and launched a balanced delivery model in 2020 to achieve on-demand production, improvement of production efficiency, cost cut and enhancement of capital turnover.

Our long history of cooperation with our reliable, accommodating and highly flexible supply chain, which includes globally leading suppliers and conduct vertical management of production factories owned by us and third parties. The suppliers can be accessible to improved raw materials and cutting edge technologies that feed in to our research and development and production, allows us to easily adjust production and expand to new and different product categories with different brands, meet the production demand for multiple categories and multiple brands achieve synergies and stay ahead of changing industries and consumer demands, thereby increasing efficiency and profitability.

### **MANAGEMENT TEAM WITH MULTI-BRAND OPERATION CAPABILITIES: MEET THE RAPID DEVELOPMENT OF ENTERPRISES AND RAPID CHANGES IN THE MARKET**

Our management team members with possession of conducting M&A at home and abroad and swiftly accomplishing integration capacity have extensive industry experience across platforms, channels, and multiple fields, covering cosmetics, daily chemicals, mother and baby products, pets and e-commerce. The average experience in the industry is more than 15 years, with experience working with us of an average of more than 10 years. Our management team has successfully incubated leading brands in multiple industries.

## BUSINESS OUTLOOK

Entering 2021, we will continue to implement the multi-brand and multi-category strategies, optimize our product portfolio and product mix, develop our omni-channel sales and distributions network, consolidate and strengthen core business, deepen our presence in the pet care and personal care industries so as to achieve sustainable development of our Group.

To reinforce our position as a leader in China's household care industry, the Group is committed to implementing the following growth strategies:

- To build a talent development system and an empowering organization that attracts external talents by building a talent incubation system, implementing employee incentive plans and continue to emphasize personal career development and professional skills improvement of employees;
- With upgrading existing leading categories and products and adopting a multi-brand strategy within the same category, we cater to the needs of different consumer groups in a targeted manner. We will also continue to expand product categories and achieve sustainable growth, continue to optimize our product portfolio and category structure based on the latest market trends, expand our personal care product portfolio, and continue to expand our pet care segment by launching new products. In addition, we also insist on upgrading product technology, deploy overseas R&D centers, leverage the advantage of local research talents, research and convert consumer demands to customize products. The Group remains implement environmental, social and governance and sustainable development strategies, continue to implement highly customized strategy and expand product offering to build an one-stop multi-category platform;
- To further strengthen its omni-channel strategy with consolidation of the leading position of offline channels and focus on online channels and other new channels, such as consumer community and proprietary platforms;
- To implement a customized marketing strategy by strengthening the establishment of image stores, building network of over one million distribution stores, conducting community marketing and promoting online marketing;
- To improve supply chain efficiency and flexibility and deploy overseas supply chains; and
- To improve organizational and operational efficiency through digitalization by digitalizing consumer management and channel management, and promoting Internet middle-office strategy.



**Chen Danxia**

*Chairman and Chief Executive Officer*

Hong Kong, 26 March 2021





# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

The Group derived its revenue primarily from the sales of (i) household care products; (ii) personal care products; (iii) pet care products; and (iv) others to customers through our omni-channel sales and distribution network. Our revenue is stated net of allowances for returns, sales discounts, rebates and value-added tax.

Our revenue increased by 23.0% from RMB1,383.4 million for the year ended 31 December 2019 to RMB1,702.2 million for the year ended 31 December 2020. The increase in our revenue was primarily due to (i) our continuous introduction of new products and promotion of our product mix optimization strategy; (ii) an increase of RMB141.6 million in revenue generated from sales through our online channels; and (iii) increases in the sales of our household insecticides and cleaning products and personal care products as a result of the increasing customer awareness on personal hygiene which increased the demand for sanitizers, disinfectant and antibacterial products during the COVID-19 outbreak.

### Revenue by product categories

	Year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Household Care				
Household Insecticides and Repellents	996,011	58.5	875,948	63.3
Household Cleaning	501,068	29.4	362,200	26.2
Air Care	63,448	3.7	62,096	4.5
<b>Sub-total</b>	<b>1,560,527</b>	<b>91.6</b>	<b>1,300,244</b>	<b>94.0</b>
Personal Care	108,427	6.4	71,495	5.2
Pet Care	22,039	1.3	1,743	0.1
Others <sup>(1)</sup>	11,161	0.7	9,920	0.7
<b>Total</b>	<b>1,702,154</b>	<b>100.0</b>	<b>1,383,402</b>	<b>100.0</b>

Note:

(1) Others included household supplies and appliances and other products.



## MANAGEMENT DISCUSSION AND ANALYSIS

Our revenue from household insecticides and repellents products increased by 13.7% from RMB875.9 million for the year ended 31 December 2019 to RMB996.0 million for the year ended 31 December 2020, primarily due to (i) our continuous introduction of new products and product mix improvement to offer upgraded products, such as Superb liquid vaporizer heaters (double tanks); (ii) our strategy to develop and optimize our omni-channels, especially online channels; and (iii) to a lesser extent, the emerging market demands due to the COVID-19 outbreak.

Our revenue from household cleaning products increased by 38.3% from RMB362.2 million for the year ended 31 December 2019 to RMB501.1 million for the year ended 31 December 2020, primarily due to (i) our continuous introduction of new products and promotion of our product mix optimization strategy and increased focus on household cleaning product category, such as toilet cleaners, kitchen cleaners, Vewin antibacterial sachets and Vewin 84 household disinfectant liquid; (ii) increased customer awareness on household hygiene; and (iii) increased sales volume driven by the increased demand for our disinfectant and antibacterial household cleaning products during the COVID-19 outbreak. Given the importance of disinfectant and antibacterial products in curbing the epidemic, transportation of our disinfectant and antibacterial household cleaning products were less restricted.

Our revenue from air care products increased by 2.2% from RMB62.1 million for the year ended 31 December 2019 to RMB63.4 million for the year ended 31 December 2020, which was primarily due to the fluctuation in sales in the relevant period before our new and upgraded products steadily achieved market acceptance, such as Cyrin deodorant sprays and diffusers, which cater to evolving demands of customers for air care products with better designs and new usage scenarios. We typically launch and sell these air care products online first and later expand to all channels.

Our revenue from personal care products increased by 51.7% from RMB71.5 million for the year ended 31 December 2019 to RMB108.4 million for the year ended 31 December 2020, primarily due to (i) our continuous introduction of new products and promotion of our product mix optimization strategy and increased focus on personal care product category, such as hand sanitizers, soaps and mosquito repellent Florida Water; (ii) increased sales volume driven by the increased demand for our hand sanitizers, soaps, disinfectants and antibacterial personal care products during the COVID-19 outbreak; and (iii) increasing customer awareness on personal hygiene.

Our revenue from pet care products increased significantly from RMB1.7 million for the year ended 31 December 2019 to RMB22.0 million for the year ended 31 December 2020, primarily due to (i) the full and formal launch of our pet care business in the second half of 2019; (ii) the growing popularity and market acceptance of our pet care products; and (iii) our continuous efforts to optimize and expand the product offerings. Revenue from other products remained relatively stable at RMB9.9 million and RMB11.2 million for the year ended 31 December 2019 and 2020, respectively.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Revenue by sales channels

	Year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Offline Distributors	1,045,866	61.5	938,024	67.9
Online Channels	294,282	17.3	152,646	11.0
– Online Distributors	110,202	6.5	69,525	5.0
– Self-operated Online Stores	184,080	10.8	83,121	6.0
Corporate and Institutional Customers	3,403	0.2	4,096	0.3
Overseas Distributors	484	0.0	2,002	0.1
Liby Channel <sup>(1)</sup>	358,119	21.0	286,634	20.7
<b>Total</b>	<b>1,702,154</b>	<b>100.0</b>	<b>1,383,402</b>	<b>100.0</b>

Note:

(1) Primarily included key accounts and certain overseas distributors and corporate and institutional customers.

As of 31 December 2020, our sales and distribution network primarily consisted of (i) an offline network of more than 1,200 distributors with approximately 620,000 points of sales across China; (ii) 48 key account clients, including operators of national and regional hypermarkets, supermarkets, department stores and convenience stores through Guangzhou Liby Group Company Limited and its subsidiaries (the “**Liby Group**”), covering approximately 11,000 points of sales; and (iii) online channels, including sales to consumers through our 26 self-operated online stores on major e-commerce platforms, such as Tmall, and sales to a network of online third party distributors.

Revenue from offline distributors increased by 11.5% from RMB938.0 million for the year ended 31 December 2019 to RMB1,045.9 million for the year ended 31 December 2020, primarily due to (i) our continuous product mix improvement to launch new products that were suitable for offline distribution; (ii) our enhanced management over and motivations to offline distributors; and (iii) to a lesser extent, the emerging market demands due to the COVID-19 outbreak.

Revenue from online distributors increased by 58.5% from RMB69.5 million for the year ended 31 December 2019 to RMB110.2 million for the year ended 31 December 2020, primarily due to our strategic focus on developing online business, which led to the increases in both the product offering and the number of online distributors. Due to similar reasons, revenue from self-operated online stores also increased by 121.5% from RMB83.1 million to RMB184.1 million over the same periods.

Revenue from corporate and institutional customers decreased from RMB4.1 million for the year ended 31 December 2019 to RMB3.4 million for the year ended 31 December 2020, primarily because their businesses were temporarily adversely impacted by the overall limited economic activities amid the COVID-19 outbreak. Revenue from overseas distributors decreased from RMB2.0 million for the year ended 31 December 2019 to RMB0.5 million for the year ended 31 December 2020, primarily because the market demands in regions where our overseas distributors are located had reduced as the overall business activities were limited resulting from the restrictive policies promulgated by local governments in response to COVID-19 pandemic.



## MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from Libby channel increased by 24.9% from RMB286.6 million for the year ended 31 December 2019 to RMB358.1 million for the year ended 31 December 2020, primarily due to the improvement in product mix, such as the upgraded disinfectant and antibacterial products, and to a lesser extent, the emerging market demands for household cleaning products due to the COVID-19 outbreak.

### Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 23.8% from RMB599.9 million for the year ended 31 December 2019 to RMB742.6 million for the year ended 31 December 2020. Our overall gross profit margin remained relatively stable at 43.4% and 43.6% for the year ended 31 December 2019 and 2020, respectively.

### Gross profit and gross profit margin by product categories

	Year ended 31 December			
	2020		2019	
	Gross Profit RMB'000	Gross Profit Margin %	Gross Profit RMB'000	Gross Profit Margin %
Household Care				
Household Insecticides and Repellents	390,042	39.2	357,833	40.9
Household Cleaning	266,679	53.2	173,768	48.0
Air Care	35,551	56.0	33,569	54.1
<b>Sub-total</b>	<b>692,272</b>	<b>44.4</b>	565,170	43.5
Personal Care	36,707	33.9	30,585	42.8
Pet Care	12,003	54.5	1,103	63.3
Others <sup>(1)</sup>	1,600	14.3	3,002	30.3
<b>Total</b>	<b>742,582</b>	<b>43.6</b>	599,860	43.4

Note:

(1) Others included household supplies and appliances and other products.



## MANAGEMENT DISCUSSION AND ANALYSIS

With respect to product categories, primarily due to the temporary shortage and increase in purchase prices of raw materials during the COVID-19 outbreak in early 2020, gross profit margin of our household insecticides and repellents products decreased from 40.9% for the year ended 31 December 2019 to 39.2% for the year ended 31 December 2020. Gross profit margin for household cleaning and air care products increased primarily because of increasing sales attributable to our online channels as well as the increasing portion of sales of products with relatively higher profit margin during the year ended 31 December 2020 as compared to the same period in 2019. Gross profit of our personal care products increased by 20.0% from the year ended 31 December 2019 to year ended 31 December 2020 mainly due to increase in sales of personal care products, while gross profit margin of our personal care products decreased over the same periods primarily due to the temporary shortage and increase in purchase prices of packaging materials for relevant products during the COVID-19 outbreak in early 2020. Gross profit of pet care products increased significantly from the year ended 31 December 2019 to the year ended 31 December 2020 primarily due to our full and formal launch of this business in the second half of 2019. Gross profit margin of pet care products, on the other hand, decreased over the same periods because the proportion of products with relatively lower profit margin increased as we continued to expanded the product offerings.

### Gross profit and gross profit margin by sales channels

	Year ended 31 December			
	2020		2019	
	Gross Profit RMB' 000	Gross Profit Margin %	Gross Profit RMB' 000	Gross Profit Margin %
Offline Distributors	439,785	42.0	416,702	44.4
Online Channels	151,741	51.6	75,990	49.8
– Online Distributors	53,151	48.2	33,302	47.9
– Self-operated Online Stores	98,590	53.6	42,688	51.4
Corporate and Institutional Customers	2,011	59.1	1,886	46.0
Overseas Distributors	275	56.7	1,246	62.2
Liby Channel <sup>(1)</sup>	148,770	41.5	104,036	36.3
<b>Total</b>	<b>742,582</b>	<b>43.6</b>	<b>599,860</b>	<b>43.4</b>

Note:

(1) Primarily included key accounts and certain overseas distributors and corporate and institutional customers.



## MANAGEMENT DISCUSSION AND ANALYSIS

With respect to sales channels, gross profit of offline distributors increased by RMB23.1 million from the year ended 31 December 2019 to the year ended 31 December 2020, while gross profit margin of offline distributors decreased over the same periods. The gross profit margin of such products was relatively low in 2020, primarily due to the relative higher proportion of household insecticides products sold through this channel as impacted by the COVID-19 outbreak. Gross profit and gross profit margin of online channels increased from the year ended 31 December 2019 to the year ended 31 December 2020 as we deepened our strategy to develop online business and continued to improve product mix. Over the same period, gross profit of Liby channels increased as well which was in line with our overall business growth. Gross profit margin of Liby channel improved from 36.3% for the year ended 31 December 2019 to 41.5% for the year ended 31 December 2020 partially attributable to the increased proportion of products with higher profit margin during the relevant periods. It also reflected our increasing pricing power resulting from our own offline marketing efforts to promote brand recognition and gain market acceptance.

### Other Income

Our other income decreased slightly by 5.4% from RMB42.1 million for the year ended 31 December 2019 to RMB39.8 million for the year ended 31 December 2020. Our other income as a percentage of our total revenue decreased from 3.0% for the year ended 31 December 2019 to 2.3% for the year ended 31 December 2020.

### Selling and Distribution Expenses

Our selling and distribution expenses increased by 11.3% from RMB334.2 million for the year ended 31 December 2019 to RMB372.0 million for the year ended 31 December 2020.

### Administrative Expenses

Our administrative expenses increased by 35.5% from RMB62.4 million for the year ended 31 December 2019 to RMB84.6 million for the year ended 31 December 2020, primarily due to the increase in wages and salaries as a result of an increase in the number of our administrative personnel, which is in line with the growth of our business.

### Other Gains and Losses

We recorded other losses of RMB17.8 million for the year ended 31 December 2020, compared to other gains of RMB230,000 for 2019, primarily related to our donation of disinfectant and other anti-epidemic products in relation to the outbreak of COVID-19.

### Finance Costs

Our finance costs increased from RMB299,000 for the year ended 31 December 2019 to RMB2.6 million for the year ended 31 December 2020 primarily because we drew down a short-term bank borrowing of RMB300.0 million in 2020 as we were designated as a National Key Epidemic Prevention Enterprise certified by the Ministry of Industry and Information Technology, and were granted such bank borrowings under the local government's anti-epidemic support schemes which was used for operating purpose. This loan is unsecured and repayable in one year with an interest rate of 2.05% per annum.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Profit Before Tax

As a result of the foregoing, our profit before income tax increased by 26.3% from RMB232.2 million for the year ended 31 December 2019 to RMB293.3 million for the year ended 31 December 2020.

### Income Tax Expense

Our income tax expense increased by 26.3% from RMB47.9 million for the year ended 31 December 2019 to RMB60.4 million for the year ended 31 December 2020 in line with the growth of our business. Our effective tax rate remained relatively stable at 20.6% and 20.6%, respectively, for the year ended 31 December 2019 and 2020, which are lower than the PRC statutory income tax rate of 25% primarily because one of our subsidiary enjoyed a preferential income tax rate of 15% since the year ended 31 December 2019 and as a qualified Hi-Tech Enterprise.

### Profit for the Year

As a result of the foregoing, our profit for the year increased by 26.3% from RMB184.4 million for the year ended 31 December 2019 to RMB232.9 million for the year ended 31 December 2020. Our net profit margin slightly increased from 13.3% for the year ended 31 December 2019 to 13.7% for the year ended 31 December 2020.

### Non-IFRS Measures: Adjusted Net Profit

Adjusted net profit, as we present it, represents profit and total comprehensive income for the period before one-time charity donations and listing expenses. Adjusted net profit is not a standard measure under IFRSs. We believe that adjusted net profit helps identify underlying trends in our business that could otherwise be distorted by the effect of the expenses that we include in income from operations and net profit through eliminating potential impacts of items that our management does not consider to be indicative of our operating performance, such as certain impacts of our one-time charity donations and listing expenses. We believe that adjusted net profit provides useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

While adjusted net profit provides an additional financial measure for investors to assess our operating performance, the use of adjusted net profit has certain limitations because it does not reflect all items of income and expense that affect our operations. The item that is adjusted for may continue to be incurred and should be considered in the overall understanding and assessment of our results.





## MANAGEMENT DISCUSSION AND ANALYSIS

As a measure of our operating performance, we believe that the most directly comparable IFRSs measure to adjusted net profit is profit for the year or period. The following table reconciles profit for the years under IFRSs to adjusted net profit for the years indicated:

	For the year ended 31 December			
	2017	2018	2019	2020
	RMB' 000			
Profit for the year	170,175	177,035	184,360	<b>232,909</b>
Adjustments for:				
One-time charity donations	–	–	–	<b>18,454</b>
Listing expenses	–	11,421	13,300	<b>10,260</b>
Adjusted net profit	170,175	188,456	197,660	<b>261,623</b>

Adjusted net profit should not be considered in isolation or construed as a substitute for analysis of IFRSs financial measures, such as operating profit or profit for the year or period. In addition, because adjusted net profit may not be calculated in the same manner by all companies, our adjusted net profit may not be comparable to the same or similarly titled measures presented by other companies.

### Operating Cash Flows

Net operating cash inflow for the year ended 31 December 2020 was RMB382.7 million, as compared to net operating cash inflow of RMB472.6 million for the year ended 31 December 2019, resulting from our profit before taxation of RMB293.3 million, adjustment of non-cash and non-operating items, movements in working capital, and income tax paid. Our movements in working capital primarily reflected (i) an increase in contract liabilities of RMB30.8 million as a result of the seasonal concentration of customer prepayments; (ii) an increase of RMB81.4 million in trade and other payables; and (iii) a decrease in amounts due from related parties of RMB3.8 million which was primarily due to the shorten turnover days of receivables from Liby Group.

### Capital Expenditures

Our capital expenditures decreased from RMB38.5 million in 2019 to RMB30.5 million for the year ended 31 December 2020 primarily represented construction of our new plant. Our capital expenditures were used primarily for purchase of items of property, plant and equipment and right-of-use assets. We financed our capital expenditures primarily through our cash generated from our operating activities.

### Financial Position

Historically, we funded our operations primarily with net cash generated from our business operations. After the Global Offering, we intend to finance our future capital requirements through the same sources of funds above, together with the net proceeds we received from the Global Offering.

As of 31 December 2020, we had RMB884.8 million in cash and cash equivalents, most of which were denominated in RMB. Our cash and cash equivalents primarily consist of cash on hand and bank balances.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Gearing Ratio

The gearing ratio increased from 72.5% as of 31 December 2019 to 122.5% as of 31 December 2020, primarily due to the bank borrowing of RMB300.0 million in 2020.

### Significant Investments Held

For the year ended 31 December 2020, the Group did not hold any significant investments.

### Funding and Treasury Policy

The Group adopts a stable approach on its finance and treasury policy, aiming to maintain an optimal financial position, the most economic finance costs, and minimal financial risks. The Group regularly reviews its funding requirements to maintain adequate financial resources in order to support its current business operations as well as its future investments and expansion plans.

### Material Acquisitions and Future Plans for Major Investment

During the year ended 31 December 2020, the Group did not conduct any material investments, acquisitions or disposals. In addition, save for the expansion plans as disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 26 February 2021 (the “**Prospectus**”), the Group has no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

### Exposure to Fluctuations in Exchange Rates

The Group operates mainly in China with most of its transactions settled in RMB. However, the Group is exposed to foreign exchange risk arising mainly from debt denominated in the USD. The Group uses derivative financial instruments, including foreign exchange option contracts and interest rate option contracts, to mitigate foreign currency risks.

### Pledge of Assets

The Group did not have any pledged assets as at 31 December 2019 and 2020.

### Contingent Liabilities

As at 31 December 2020, the Group had no significant contingent liabilities.

### Human Resources

As at 31 December 2020, the number of employees of the Group was 823 as compared to 793 as at 31 December 2019. The total cost of staff, including basic salary and wages, social insurance and bonus, for the year ended 31 December 2020 was RMB123.6 million as compared to RMB87.3 million in 2019. The increase was mainly because (i) the Group improved the organization structure and business growth; and (ii) the Group adjusted the employee bonus policy for certain employees.



# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

**Ms. Chen Danxia (陳丹霞)**, aged 41, is an executive Director, the chairman of our Board and the Chief Executive Officer of our Company. She was appointed as the chairman of the nomination committee of the Company (the “**Nomination Committee**”) and a member of the remuneration committee of the Company (the “**Remuneration Committee**”) in February 2021. She has more than 14 years of experience in the consumer goods industry. With her extensive experience in operation management and corporate strategic development in the consumer goods and cosmetic products industry, she is principally responsible for overseeing the overall management and business operation and formulating strategies and operational plans of our Group. Ms. Chen holds directorships and/or other positions in our major operating subsidiaries including Guangzhou Cheerwin Holding Company Limited (the “**Guangzhou Cheerwin**”), Guangzhou Cheerwin Biotechnology Company Limited (the “**Cheerwin Biotechnology**”), Guangzhou Cheerwin Household Chemicals Company Limited (the “**Panyu Cheerwin**”), Anfu Cheerwin Rihua Limited Company (the “**Anfu Cheerwin**”), Guangzhou Yuncheng Network Technology Company Limited (the “**Guangzhou Yuncheng**”), Guangzhou Leda Automobile Supplies Company Limited (the “**Leda Automobile**”), Shanghai Runzhisu Biotechnology Company Limited (the “**Shanghai Runzhisu**”), Guangzhou Tongli Daily Suppliers Company Limited (the “**Guangzhou Tongli**”), Shanghai Cheerwin Biotechnology Company Limited (the “**Shanghai Cheerwin**”) and Guangzhou Yuntuo E-commerce Company Limited (the “**Guangzhou Yuntuo**”).

Ms. Chen was appointed a director of Guangzhou Liby Group Company Limited (the “**Guangzhou Liby**”) in January 2016, and has assumed responsibility for overseeing the overall strategic management of the Cheerwin Business Division since then. As Ms. Chen is the daughter of Mr. Chen Kaichen (“**Mr. KC Chen**”) and Ms. Ma Huizhen (“**Ms. Ma**”), our Controlling Shareholders, and part of the Chen family, she occupies various non-executive roles in other companies owned by the Chen family. Details of Ms. Chen’s directorships in Kysun Holdings (China) Company Limited (“**Kysun Holdings**”) and Guangzhou Liby are set out in the section headed “Relationship with Our Controlling Shareholders” in the Prospectus. Ms. Chen is the cousin of Mr. Chen Zexing, a non-executive Director.

Ms. Chen served as an independent non-executive director of Babytree Group, a maternity and child focused community platforms provider listed on the Stock Exchange (stock code: 1761), from November 2018 to June 2020. From February 2016 to February 2018, Ms. Chen served as a director in Baokai Daorong and from June 2008 to December 2013, Ms. Chen has served as the general manager at Shanghai Cogi. Ms. Chen as the chairman of Shanghai Cogi in her non-executive capacity since January 2014. Baokai Daorong and Shanghai Cogi are businesses owned by the Chen family. Ms. Chen has been a director at Ousia Australia Pty. Ltd since May 2009.

Since January 2019, Ms. Chen has been the vice president of Zhejiang Hupan Shanqi Charity Foundation (浙江省湖畔善契公益基金會) and assisted Jack Ma Foundation (馬雲公益基金會) to build the first rural boarding school model in China. She was recognized as the Guangzhou Municipal March 8th Red-Banner Pacesetter (廣州市三八紅旗手) of 2017 by Guangzhou Women’s Federation (廣州市婦女聯合會). In July 2020, Ms. Chen was appointed as Vice President of Brand Alliance (品牌聯盟副主席) for the 25th China Beauty Expo (中國美容博覽會).

She obtained master of commerce with honors in marketing and strategic management from the University of Sydney, Australia, in October 2006. Ms. Chen was enrolled in Hupan School of Entrepreneurship, a corporate business school founded by Mr. Jack Ma, in March 2017.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Xie Rusong (謝如松)**, aged 54, is an executive Director and our vice president, and is primarily responsible for the overall management of our Group's supply chain. Mr. Xie currently holds directorships and/or other positions in our major operating subsidiaries including Cheerwin Biotechnology, Panyu Cheerwin, Anfu Cheerwin, Guangzhou Yuncheng, Leda Automobile and Guangzhou Tongli.

Mr. Xie has more than 30 years of experience in the fast moving consumer goods industry including experience related to sales, brand management and supply chain. He served as the general manager of household business division of Guangzhou Liby from December 2008 to April 2018, and has been responsible for overseeing the overall management of the business division operating under Guangzhou Liby and its subsidiaries (the "**Liby Group**") prior to reorganization of the Group (the "**Cheerwin Business Division**") from December 2008. He was officially appointed as director and general manager of Cheerwin Biotechnology in December 2010. From March 2005 to December 2008, Mr. Xie served as the sales manager in Jiangsu Tongda Co., Ltd. (江蘇同大股份有限公司), a chemicals manufacturing company, responsible for managing the sales channels of the company. From February 1990 to December 2003, Mr. Xie worked at Shanghai Johnson Ltd. (上海莊臣有限公司), an international household chemicals company, for almost 14 years, where his last position was sales manager. From October 1987 to January 1990, Mr. Xie served as a production manager in Shanghai Duote Paper Co., Ltd. (上海多特紙品有限公司), a paper manufacturing company.

He obtained his master's degree in business administration from Fudan University (復旦大學), the PRC, in June 2019.

**Mr. Zhong Xuyi (鍾胥易)**, aged 40, is an executive Director and our Chief Financial Officer, and is primarily responsible for overall management of finance and information technology of our Group. He currently holds other positions in our major operating subsidiaries including Cheerwin Biotechnology, Anfu Cheerwin and Panyu Cheerwin.

Mr. Zhong has more than 17 years of experience in the consumer goods industry. He joined the Liby Group in July 2003 and assumed responsibility for finance management of the Cheerwin Business Division in December 2010. His last position at Liby Group was deputy director of taxation and capital division. He was officially transferred to our Group in January 2018.

Mr. Zhong received his bachelor's degree in accounting from Guangdong University of Finance & Economics (廣東財經大學) (formerly known as Guangdong Commercial College (廣東商學院)), the PRC, in June 2003. He later obtained his master degree in accounting from Sun Yat-sen University (中山大學), the PRC, in June 2010. He also obtained certificate of completion of modern business administration course from Tsinghua University (清華大學), the PRC, in June 2007.

Mr. Zhong obtained the Certified Internal Auditor (國際註冊內部審計師) issued by The Institute of Internal Auditors (國際註冊內部審計師協會) in November 2010.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Chen Zexing (陳澤行)**, aged 31, joined our Company as a non-executive Director since August 2020, and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Chen is the son of Mr. Chen Kaixuan and Ms. Li Ruohong, our Controlling Shareholders, and the cousin of Ms. Chen Danxia, an executive Director.

Mr. Chen has been the president and an executive director of Kai Tai Health Pharmaceutical Chain Co., Ltd. (啟泰健康藥業連鎖有限公司) since July 2016, the chairman of Kai Tai Chinese Medicine (Holdings) Co., Ltd (啟泰藥業(集團)有限公司) since September 2018 and became an executive director and general manager at Guangzhou Sulikang Biotechnology Company Limited (廣州素力康生物科技有限公司), pharmaceutical and food product businesses owned by the Chen family in July 2017. Since December 2016, Mr. Chen has been the director of Kysun Holdings. From August 2013 to February 2016, Mr. Chen served as a retail terminal manager in Guangzhou Liby.

Mr. Chen graduated from South China Institute of Software Engineering GU (廣州大學華軟軟件學院), the PRC, with an associate degree in marketing in August 2013.

**Dr. De-Chao Michael Yu (俞德超)**, aged 57, was appointed as an independent non-executive Director of our Company and as a member of the audit committee of the Company (the “**Audit Committee**”), the Remuneration Committee and Nomination Committee in February 2021. He is primarily responsible for providing independent judgment and advice to our Board. Dr. Yu has been the executive director, chief executive officer and chairman of Innovent Biologics, Inc. (信達生物製藥), a biopharmaceutical company listed on the Stock Exchange (stock code: 1801), since he founded that company in August 2011. He has been serving as an independent non-executive director in Babytree Group (寶寶樹集團), a maternity and child focused community platforms provider listed on the Stock Exchange (stock code: 1761) since June 2018.

Dr. Yu served as an independent director at PharmaBlock Sciences (Nanjing), Inc. (南京藥石科技股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 300725) from December 2015 to May 2018. Previously, he had served as general manager at Chengdu Kanghong Biotech Co., Ltd. (成都康弘生物科技有限公司) from January 2006 to August 2010, prior to which he also worked at Calydon, Inc., Cell Genesys, Inc. and Applied Genetic Technology Corporation.

Dr. Yu obtained his doctor of philosophy degree in genetics from Chinese Academy of Sciences (中國科學院) in 1993 and completed his post-doctoral training in pharmaceutical chemistry in University of California, San Francisco.

**Mr. Guo Sheng (郭盛)**, aged 49, was appointed as an independent non-executive Director of our Company and as the chairman of the Remuneration Committee, a member of the Audit Committee and Nomination Committee in February 2021. He is primarily responsible for providing independent judgment and advice to our Board. Since October 2010, Mr. Guo has been serving as the chief executive officer in Zhaopin Limited, a recruitment platform provider that was listed on the New York Stock Exchange (stock code: ZPIN) prior to its delisting in September 2017.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

From September 2007 to July 2010, Mr. Guo served as a director and general manager in Sinotrans Air Transportation Development Co., Ltd. (中外運空運發展股份有限公司), an air cargo company that was listed on the Shanghai Stock Exchange (stock code: 600270) prior to its delisting in December 2018. From September 2001 to September 2002, he served as the chief executive officer in Prosys Solutions Ltd. From September 1994 to September 2001 and from September 2002 to June 2007, Mr. Guo served in Mckinsey & Company with his last position being a partner.

Mr. Guo received double bachelor's degrees in computer and English for applied and professional use from Shanghai Jiao Tong University (上海交通大學), the PRC, in July 1994. He further received his master's degree in administration from Northwestern University, the United States, in June 1999.

**Mr. Chan Wan Tsun Adrian Alan (陳弘俊)**, aged 42, was appointed as an independent non-executive Director of our Company and as the chairman of the Audit Committee in February 2021. He is primarily responsible for providing independent judgment and advice to our Board. He has been independent non-executive director Baoxin Auto Group Limited, an automobile dealership company listed on the Main Board of Stock Exchange (stock code: 1293) since November 2011.

Mr. Chan has been the chief financial officer of Sun Ray Capital Investment Corporation since July 2015. He has been the chief financial officer of LabyRx Immunologic Therapeutics Limited since July 2018 and has been the chief financial officer of Lifepans Limited since August 2018. Since 21 October 2019, Mr. Chan has been appointed as an independent non-executive director of Best Linking Group Holdings Limited (stock code: 8617), the shares of which are listed on the GEM of the Stock Exchange. From 2009 to June 2015, he was the chief financial officer of Enviro Energy International Holdings Limited (stock code: 1102), a company whose shares are listed on the Main Board of the Stock Exchange. He has over 15 years of experience in corporate finance. He was an associate director of UOB Asia (Hong Kong) Limited from July 2005 to November 2009. He has also previously worked for the equity capital markets department of DBS Asia Capital Limited from January 2002 to July 2005, the corporate finance department of DBS Vickers Securities from April 2000 to December 2001, and as auditor for a top-tier international accounting firm.

Mr. Chan graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree in Accounting and Finance in April 2000. He has been a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants since June 2006 and November 2009, respectively.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Ms. Wang Dong (王冬)**, aged 42, is our Chief Operating Officer, general manager of our brand management center and joint company secretary of our Company. She is primarily responsible for overseeing the overall business operation and brand management of our Group. She also serves as the general manager of brand management center in Cheerwin Biotechnology. Ms. Wang has over 18 years of experience in consumer goods industry. From December 2016 to March 2019, Ms. Wang was the general manager in Megahive Media. From June 2002 to November 2016, Ms. Wang served in Guangzhou Liby with her last position being the deputy general manager of brand management center and director of media communication division. Ms. Wang assumed responsibility for brand management of the Cheerwin Business Division in July 2012. She was officially transferred to our Group in April 2019. Ms. Wang obtained her dual bachelor's degrees in packaging engineering and business administration from Wuhan Polytechnic University (武漢輕工大學) (formerly known as Wuhan Food Industry College (武漢工業學院)), the PRC, in June 2002. In 2016, Ms. Wang was recognized as the Guangzhou Municipal March 8th Red-Banner Pacesetter (廣州市三八紅旗手) by Guangzhou Women's Federation (廣州市婦女聯合會).

**Mr. Gao Jixiang (高吉祥)**, aged 34, is the general manager of our marketing management center, and is primarily responsible for overseeing the marketing management of our Group. He also serves as the deputy general manager in Shanghai Runzhisu since January 2019. Mr. Gao has around 13 years of experience in consumer products industry. Prior to joining our Group, he was the director of sales channel development division in Shanghai New COGI Cosmetic Co., Ltd. (the "Shanghai Cogi") where he was responsible for operation management of Rikiso (潤之素) business, from June 2016 to December 2018. Prior to his employment with Shanghai Cogi, from July 2007 to May 2016, Mr. Gao served in Guangzhou Liby with his last position being the retail director of Eastern China region. Mr. Gao obtained his bachelor's degree in international politics from Sichuan University (四川大學), the PRC, in July 2007.

**Mr. Yang Yu (楊鈺)**, aged 37, is the general manager of our operation management center, and is primarily responsible for overseeing human resources and operation management of our Group. He also serves as the general manager of operation management center in Cheerwin Biotechnology. Mr. Yang has over 14 years of experience in consumer goods industry. Mr. Yang previously worked in Guangzhou Liby from July 2006 to August 2018 with her last position being director of operation management division. Mr. Yang assumed responsibility of the management of finance budgeting of the Cheerwin Business Division in May 2016 before officially transferring to our Group. Mr. Yang obtained her bachelor's degree in accounting from Hunan University of Technology and Business (湖南工商大學) (formerly known as Hunan Business College (湖南商學院)), the PRC, in June 2006.

**Ms. Ding Jiajia (丁嘉佳)**, aged 35, is the general manager of our e-commerce operation center, and is primarily responsible for overseeing the e-commerce operation of our Group. Prior to joining our Group in December 2019, Ms. Ding served in Alibaba Group Holding Limited, an e-commerce company listed on the Stock Exchange (stock code: 9988) and the New York Stock Exchange (stock code: BABA) as an industry expert from August 2010 to November 2019. Ms. Ding obtained her bachelor's degree in animation from Zhejiang Gongshang University (浙江工商大學), the PRC, in July 2008.





## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Shi Xunqin (石訓勤)**, aged 47, is the general manager of our investment and financing center, and is primarily responsible for overseeing investment and financing related matters of our Group. From June 2018 to August 2020, Mr. Shi served as the general manager of investment and capital operation division in Kysun Holdings. From January 2015 to June 2018, Mr. Shi was the managing director in Baokai Daorong, where he was responsible for acquisition and equity investment business unit. From June 2016 to June 2018, He served as the general manager in Guangzhou Zhanze Investment Management Co., Ltd. (廣州展澤投資管理有限公司). From February 2004 to December 2014, Mr. Shi served in Guangzhou Liby with his last position being deputy general manager of financial and capital operation center. During his employment with Guangzhou Liby, Mr. Shi assumed responsibility of corporate finance matters of the Cheerwin Business Division in January 2006 before officially transferring to our Group in August 2020. Mr. Shi obtained his bachelor's degree in chemical engineering from Huaqiao University (華僑大學), the PRC, in July 1997 and obtained his master's degree in business administration from Sun Yat-sen University (中山大學), the PRC, in June 2004.

**Mr. Liang Hongwen (梁洪文)**, aged 44, is the general manager of our pet business department, primarily responsible for overseeing the operation and management of the Group's pet business department. Mr. Liang has 21 years' experience in the consumer goods industry and the pet industry. Prior to joining the Group in February 2019, Mr. Liang served as a purchaser for Xindier Supermarket Chain in Beijing (北京新迪爾連鎖超市) from September 1999 to April 2003. From April 2003 to July 2005, he served as the marketing supervisor of the key customer department of Inner Mongolia Yili Industrial Group Co., Ltd. – Beijing Branch (內蒙古伊利實業集團股份有限公司北京分公司). From July 2005 to August 2008, he served as the product group manager of the marketing department of Shijiazhuang Sanlu Group Co., Ltd. (石家莊三鹿集團股份有限公司). From September 2008 to October 2009, he served as the vice president of Marketing Center of Hebei Xiangyao Food Co., Ltd. (河北鄉謠食品有限公司). From October 2009 to February 2014, he served as the marketing director of the Eastern China business division of Beijing Sanyuan Foods Co., Ltd. (北京三元食品股份有限公司). From February 2014 to February 2019, he served as the deputy general manager of China Pet Food Co., Ltd. (Yantai) (煙臺中寵食品股份有限公司) (stock code: 002891), a listed company. Mr. Liang obtained his bachelor's degree in economics and management from Beijing Engineering Management College (北京工程管理學院), the PRC, in July 1999.

### JOINT COMPANY SECRETARIES

**Ms. Leung Shui Bing (梁瑞冰)**, is a joint company secretary of our Company. Ms. Leung is a manager of the Listing Services Department of TMF Hong Kong Limited (a global corporate services provider). She has over 15 years of experience in the company secretarial field. Ms. Leung obtained a bachelor's degree in Business and Management Studies (Accounting and Finance) from University of Bradford and a master's degree in Corporate Governance from The Open University of Hong Kong. She is a Chartered Secretary, Chartered Governance Professional and an associate member of the Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

**Ms. Wang Dong (王冬)**, is a joint company secretary of our Company. For biographical details of Ms. Wang, please see “- Senior Management” in this section.



# DIRECTORS' REPORT

The Board is pleased to announce the annual report (the “**Annual Report**”) and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

## GLOBAL OFFERING

The Company was incorporated in the Cayman Islands with limited liability on 11 April 2018, the shares of which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 10 March 2021 (the “**Listing Date**”). The Prospectus has been published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.cheerwin.com](http://www.cheerwin.com)).

## PRINCIPAL BUSINESS

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the consolidated financial statements.

## BUSINESS REVIEW

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year ended 31 December 2020 are set out in the Chairman's Statement on pages 5 to 7 and the Management Discussion and Analysis on pages 8 to 16 of the Annual Report.

An account of the Group's key relationships with its key stakeholders is provided in the Chairman's Statement on pages 5 to 7 of the Annual Report. An analysis of the Group's performance during the year ended 31 December 2020 using financial key performance indicators is set out in the Financial Summary on page 4 and the Management Discussion and Analysis on pages 8 to 16 of the Annual Report.

### Compliance with Laws and Regulations

During the year ended 31 December 2020, as far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material aspects.

### Principal Risks and Uncertainties

The Directors are aware that the Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The key risks and uncertainties identified by the Group are set out as follows:

- Our business depends heavily on the strength of our brands and reputation, and consumers' recognition and their trust in our products may be materially and adversely affected if we fail to maintain and enhance our brands and reputation;



## DIRECTORS' REPORT

- we operate in a highly competitive industry if we are unable to compete effectively with existing or new competitors, our sales, market share and profitability could decline;
- our business is subject to changes in consumer demand, preferences and spending patterns;
- our efforts in developing, launching and promoting new brands and products, diversifying our brand and product portfolio may not be successful;
- our business operations may be subject to seasonality; and
- our brands and products may be subject to counterfeiting imitation, and/or infringement by third parties.

For other risks and uncertainties faced by the Group, please refer to the section headed “Risks Factors” in the Prospectus.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

We are in the process of establishing an environmental, social and governance (“**ESG**”) committee (the “**ESG committee**”) to oversee our ESG management. Additionally, we are in the process of forming an environmental protection, health, and safety team (the “**EHS team**”) to assess and manage all ESG related matters. Our EHS team uses a number of metrics (the “**ESG metrics**”) to assess potential risks, including setting an energy consumption target for each type of our products which measures the use of fuels or electricity in producing each unit of such product.

For the year ended 31 December 2020, we had not received any notice or warning in relation to pollution in respect of our operation, nor had we been subject to any fines, penalties or other legal actions by government authorities resulting from any non-compliance with any environmental protection laws or regulations that had a material adverse impact on our operations and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any environmental government authorities in respect thereof.

For details of the Company’s environmental policies and performance, please refer to the ESG Report of the Company for the year ended 31 December 2020 to be published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company’s website ([www.cheerwin.com](http://www.cheerwin.com)) according to the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the transaction amounts of the Group's five largest customers accounted for 24.9% of the Group's total revenues (2019: 25.2%), while the transaction amounts of the largest customer accounted for 21.0% of the Group's total revenues (2019: 20.7%).

For the year ended 31 December 2020, the transaction amounts of the Group's five largest suppliers accounted for 48.1% of the Group's total purchases (2019: 47.0%), while the transaction amounts of the largest supplier accounted for 24.2% of the Group's total purchases (2019: 29.1%).

During the Reporting Period, none of the Directors or any of their close associates or any shareholders of the Company (the "**Shareholders**") (which to the knowledge of the Directors owns more than 5% of the number of the issued shares of the Company) was interested in the top five customers or suppliers of the Group.

## RESULTS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated financial statement on pages 56 to 126 of the Annual Report.

## FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.044 per ordinary share (equivalent to HK\$0.0524 per ordinary share) for the year ended 31 December 2020. This proposed final dividend is subject to the approval of the Shareholders at the annual general meeting of the Company (the "**AGM**") to be held on Thursday, 3 June 2021, and will be paid on or around Friday, 25 June 2021 to those Shareholders whose names appear on the Company's register of members on Wednesday, 9 June 2021.

The proposed final dividend shall be declared in RMB and paid in HK\$. The final dividend payable in HK\$ will be converted from RMB at the average central parity rate of RMB to HK\$ as announced by the People's Bank of China for the period from Friday, 19 March 2021 to Thursday, 25 March 2021.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 31 May 2021 to Thursday, 3 June 2021, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 28 May 2021.



## DIRECTORS' REPORT

The register of members of the Company will also be closed on Wednesday, 9 June 2021 in order to determine the entitlement of the Shareholders to the final dividend (if approved by the Shareholders in the AGM), during which period no share transfers will be registered. To qualify for the final dividend, all transfers forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Tuesday, 8 June 2021.

### DIVIDEND POLICY

Pursuant to the dividend policy adopted by the Company, the declaration of dividends is subject to the discretion of the Board, and, if necessary, the approval of the Shareholders. In considering the declaration and payment of dividends, the Board shall take into account the Group's results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by the Company, the Company's capital requirements, future business plans and prospects and any other factors that the Board may consider relevant. Any declaration and payment, as well as the amount, of any dividend will also be subject to the articles of association of the Company (the "**Articles of Association**") and all applicable laws and regulations. The Directors may reassess the dividend policy from time to time.

### FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last four financial years is set out on page 4 of the Annual Report. The summary does not form part of the audited consolidated financial statements.

### BANK BORROWING

Details of the bank borrowing of the Group for the year ended 31 December 2020 are set out in note 26 to the consolidated financial statements.

### USE OF PROCEEDS FROM THE LISTING

The Shares were listed on the Main Board of the Stock Exchange on 10 March 2021. The Company received net proceeds (after deduction of underwriting commissions and related costs and expenses) from the Global Offering of approximately HK\$2,888.4 million. As the Company was listed on the Main Board of the Stock Exchange on 10 March 2021, as at 31 December 2020, there was no proceeds from the listing of the Company's shares on the Stock Exchange (the "**Listing**"). After the Listing, the Company intends to apply such net proceeds according to the manner and proportions as disclosed in the Prospectus.

The net proceeds from the Global Offering have not yet been used and are placed in licensed banks in Hong Kong as at the date of the Annual Report.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2020 are set out in note 15 to the consolidated financial statements.

## **SHARE CAPITAL**

Details of movements in the Company's share capital for the year ended 31 December 2020 are set out in note 27 to the consolidated financial statements.

## **EQUITY-LINKED AGREEMENT**

There was no equity-linked agreement entered into by the Company or any of its subsidiaries during the year ended 31 December 2020 or subsisted as at 31 December 2020.

## **RESERVES**

Details of movements in the reserves of the Company for the year ended 31 December 2020 are set out in note 36 to the consolidated financial statement of this Annual Report.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2020, the Company did not have reserve available for distribution to shareholders.

Under the Cayman Company Act, the Company may make distribution to the Shareholders out of the credit standing to the share premium account of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of this credit standing to the share premium account if it is, or would after the payment be, unable to pay its debts as they fall due in the ordinary course of business.

## **PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES**

During the period from the Listing Date and up to the date of the Annual Report, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

## **DONATIONS**

For the year ended 31 December 2020, RMB18.5 million (2019: nil) charitable donations were made by the Group.



## DIRECTORS' REPORT

### DIRECTORS

The Directors since the Listing Date and up to date of the Annual Report are:

#### Executive Director

Ms. Chen Danxia (*Chairman and Chief Executive Officer*)

Mr. Xie Rusong

Mr. Zhong Xuyi

#### Non-Executive Director

Mr. Chen Zexing

#### Independent Non-Executive Directors

Dr. De-Chao Michael Yu

Mr. Guo Sheng

Mr. Chan Wan Tsun Adrian Alan

In accordance with Article 84(1) of the Articles of Association, Ms. Chen Danxia, Mr. Xie Rusong and Mr. Zhong Xuyi, will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM.

The particulars of Directors who are subject to re-election at the forthcoming AGM are set out in the circular to the Shareholders of the Company dated 26 April 2021.

### CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each independent non-executive Director a confirmation of independence in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company considers all independent non-executive Directors to be independent as at the date of the Annual Report.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 22 of the Annual Report.



## CHANGES TO DIRECTORS' INFORMATION

There is no change to any information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) under Rule 13.51(2) of the Listing Rules since the publication of the Prospectus.

## DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENTS

Each of the executive Directors has entered into a service contract with the Company on 19 February 2021, and the Company has issued letters of appointment to each of the non-executive Director and independent non-executive Directors. The service contracts with each of the executive Directors is for an initial fixed term of three years. The letters of appointment with each of the non-executive Director and independent non-executive Directors is for an initial fixed term of three years. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts and the letters of appointment may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of the Directors has entered, or has proposed to enter, a service contract or letter of appointment with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

## EMOLUMENT POLICY

The Remuneration Committee was set up for reviewing the Group's emolument policy and structure of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

Details of the emoluments of the Directors and the five highest paid individuals for the year ended 31 December 2020 are set out in note 12 to the consolidated financial statements.

## RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 28 to the consolidated financial statements.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the date of the Annual Report, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules.



## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the date of the Annual Report, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO or which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Nature of interest	Number of shares	Approximate percentage of interest <sup>(6)</sup>
Ms. Ma <sup>(2)</sup>	Interest in a controlled corporation/ interest of spouse	990,000,000 (L) <sup>(1)</sup>	74.25%
Ms. Li Ruohong (“ <b>Ms. Li</b> ”) <sup>(3)</sup>	Interest in a controlled corporation/ interest of spouse	990,000,000 (L) <sup>(1)</sup>	74.25%
Mr. Chen Kaixuan (“ <b>Mr. KX Chen</b> ”) <sup>(3)</sup>	Interest in a controlled corporation/ interest of spouse	990,000,000 (L) <sup>(1)</sup>	74.25%
Mr. KC Chen <sup>(2)</sup>	Interest in a controlled corporation/ interest of spouse	990,000,000 (L) <sup>(1)</sup>	74.25%
Cheerwin Global Limited <sup>(4)</sup>	Beneficial interest	990,000,000 (L) <sup>(1)</sup>	74.25%
Morgan Stanley & Co. International plc <sup>(5)</sup>	Underwriter	76,915,687 (L) <sup>(1)</sup> 50,000,000 (S) <sup>(1)</sup>	5.77% 3.75%
Morgan Stanley International Holdings Inc. <sup>(5)</sup>	Interest of controlled corporations	76,915,687 (L) <sup>(1)</sup> 50,000,000 (S) <sup>(1)</sup>	5.77% 3.75%
Morgan Stanley International Limited <sup>(5)</sup>	Interest of controlled corporations	76,915,687 (L) <sup>(1)</sup> 50,000,000 (S) <sup>(1)</sup>	5.77% 3.75%
Morgan Stanley Investments (UK) <sup>(5)</sup>	Interest of controlled corporations	76,915,687 (L) <sup>(1)</sup> 50,000,000 (S) <sup>(1)</sup>	5.77% 3.75%

*Notes:*

- (1) The letter “L” and “S” denote the person’s long position and short position in such shares of the Company, respectively.
- (2) Ms. Ma and Mr. KC Chen are in a spousal relationship. By virtue of the SFO, they are deemed to be interested in all the shares of the Company held by each other.
- (3) Ms. Li and Mr. KX Chen are in a spousal relationship. By virtue of the SFO, they are deemed to be interested in all the shares of the Company held by each other.
- (4) The entire issued share capital of Cheerwin Global BVI is beneficially owned by Ms. Ma, Ms. Li, Mr. KC Chen and Mr. KX Chen who are deemed to be interested in the shares of the Company held by Cheerwin Global BVI pursuant to SFO.
- (5) These Shares held by Morgan Stanley & Co. International plc, which is directly wholly-owned by Morgan Stanley Investments (UK). Morgan Stanley Investments (UK) is indirectly wholly-owned by Morgan Stanley International Limited, which is indirect wholly-owned by Morgan Stanley International Holdings Inc. By virtue of the SFO, Morgan Stanley Investments (UK), Morgan Stanley International Limited and Morgan Stanley International Holdings Inc. are deemed to be interested in these Shares.
- (6) As at the date of the Annual Report, the Company had 1,333,333,500 ordinary shares in issue.

Save as disclosed above, as at the date of this annual report, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

## **RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS**

Details of the related party transactions undertaken in the normal course of business are provided under note 33 to the consolidated financial statements of the Annual Report, which do not constitute connected transaction nor continuing connected transaction as defined under the Listing Rules during the year ended 31 December 2020 under review because the shares of the Company listed on the Stock Exchange on 10 March 2021.

The (i) property services framework agreement; (ii) ancillary service agreement; (iii) sales framework agreement; and (iv) outsourcing framework agreement constituted continuing connected transactions of the Company after the Listing. Details of which including (1) the parties to the transaction and a description of their connected relationship; (2) the transaction date; (3) description of the transaction; (4) total annual cap and terms, were disclosed in the section headed “Connected Transactions” of the Prospectus.

## **PRE-EMPTIVE RIGHTS**

There is no provision for the pre-emptive rights under the Articles of Association and the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

## **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE**

None of Director has a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, any of its subsidiaries or fellow subsidiaries was a party for the year ended 31 December 2020 and up to the date of the Annual Report.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as otherwise disclosed in the Annual Report, at no time during the period from the Listing Date to the date of the Annual Report was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or any of their spouses or minor children were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

## **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed for the year ended 31 December 2020.



## DIRECTORS' REPORT

### DIRECTORS' INTEREST IN COMPETING BUSINESS

Set out below are interests of our Directors in a business which may compete with our business for the purpose of Rule 8.10 (2) of the Listing Rules as at the date of the Annual Report.

<b>Name of Director</b>	<b>Name of Company</b>	<b>Interest</b>
Ms. Chen Danxia	Ousia Australia Pty. Ltd (" <b>Ousia Australia</b> ")	Beneficial interest in Danxia Chen family trust and directorship
	Liby Group and Shanghai Cogi (collectively the " <b>Chen's Family Business</b> ")	Directorship

Ousia Australia is a Australian cosmetics company principally engaged in the production and sales of beauty and skincare products, such as facial cleanser, facial toner and lotion, sunscreen and eye cream, under the brand name "Glamourflage" and with a business presence primarily in Australia. Ousia Australia was acquired by Ms. Chen Danxia as part of her personal investment portfolio. Our Company and Ousia Australia have their own respective boards of directors that function independently of each other. The directorship of Ms. Chen Danxia in Ousia Australia Pty. Ltd is for the purpose of representing her interest on the board level of Ousia Australia. Whilst for the purpose of Rule 8.10(2) of the Listing Rules, Ms. Chen Danxia is regarded as having an interest in a potential competing business, she is a passive investor and is not involved in the day-to-day management of Ousia Australia. The day-to-day management and operations of Ousia Australia are performed by its chief operating officer, brand development manager and supply chain manager based in Australia.

Ms. Chen Danxia also holds directorships in Liby Group and Shanghai Cogi, part of the Chen family's businesses, which are owned and controlled by our Controlling Shareholders. The Chen's Family Business operates under the "Liby" (立白) brand and "COGI" brand in the consumer segment, such as fabric care, dish care and personal care product categories. For details of the competing interests of Ms. Chen Danxia in Liby Group and Shanghai Cogi, please see the section headed "Relationship with Our Controlling Shareholders – Independence from Our Controlling Shareholders – Management Independence" in the Prospectus.

The Independent non-executive Directors reviewed the competing interests held by Ms. Chen Danxia and considered that the possibility of Ousia Australia and Chen's Family Business competing with the Group is remote.

Saved as disclosed in the Annual Report, during the period from the Listing Date to the date of the Annual Report, none of the Directors or their respective associates (as defined under the Listing Rules) had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

## PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association and subject to the applicable laws, the Company has arranged for appropriate insurance to cover all costs, charges, losses, expenses and liabilities incurred by any Directors or officers in the execution and discharge of his duties or in relation thereto. The relevant provisions in the Articles of Association and such directors and officers liability insurance were in force during the year ended 31 December 2020 and as of the date of the Annual Report.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% (being the minimum public float prescribed by the Stock Exchange and the Listing Rules) of the Company's entire issued share capital were held by the public as at the date of the Annual Report.

## EVENTS AFTER THE PERIOD

The following significant events took place subsequent to 31 December 2020:

- (a) Pursuant to the resolutions in writing of the Shareholders passed on 19 February 2020, each issued and unissued share of par value of USD1.00 each was subdivided into 5,000,000 shares of USD0.0000002 each, and following which, the authorized share capital of the Company became USD50,000 divided into 250,000,000,000 shares of USD0.0000002 each; and
- (b) The Company's shares were listed on the Main Board of the Stock Exchange on 10 March 2021 and 333,333,500 ordinary shares were issued at HK\$9.2 per share on the Listing Date in connection with the Listing as detailed in the Prospectus.

As at the date of the Annual Report, save as disclosed above, there was no important event affecting the Group which occurred after the end of 31 December 2020.

## AUDIT COMMITTEE

The Audit Committee has jointly reviewed with the Board the accounting principles and practices adopted by the Group, and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed and discussed the annual results of the Group for the year ended 31 December 2020.



## DIRECTORS' REPORT

### AUDITOR

Deloitte Touche Tohmatsu was appointed as auditor of the Company (the “**Auditor**”) for the year ended 31 December 2020. Deloitte Touche Tohmatsu has audited the accompanying financial statements which were prepared in accordance with the International Financial Reporting Standards.

Deloitte Touche Tohmatsu is subject to retirement and, being eligible, offers itself for re-appointment at the AGM. A resolution for re-appointment of Deloitte Touche Tohmatsu as Auditor will be proposed at the AGM.

### CORPORATE GOVERNANCE

The Company is committed to maintaining high level of corporate governance practices. Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 35 to 50 of the Annual Report.

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the year ended 31 December 2020, the Group has complied with the “comply or explain” provisions in the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules. Further details of the Group’s ESG matters will be set out in the ESG Report to be published by the Company separately in due course and will be made available on the website of the Company and that of the Stock Exchange.

By Order of the Board

**Chen Danxia**

*Executive Director, Chairman and Chief Executive Officer*

Hong Kong, 26 March 2021



# CORPORATE GOVERNANCE REPORT

The Board is pleased to report to the Shareholders on the corporate governance of the Company for the year ended 31 December 2020.

## CORPORATE GOVERNANCE PRACTICES

The Company was listed on the Stock Exchange on 10 March 2021 and the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules was not applicable to the Company before the Listing Date.

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. After the Listing, the Company has adopted the CG Code as its own code of corporate governance. Save as disclosed in the Annual Report, the Company has complied with all applicable code provisions under the CG Code for the period from the Listing Date to the date of the Annual Report. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

## THE BOARD

### Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group’s strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company’s affairs, the Board has established three Board committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively, the “**Board Committees**”). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against its Directors, and will conduct annual review on such insurance coverage.

### Board Composition

As at the date of the Annual Report, the Board comprised three executive Directors, one non-executive Director and three independent non-executive Directors as set out below:



# CORPORATE GOVERNANCE REPORT

## Executive Directors

Ms. Chen Danxia (*Chairman*)  
Mr. Xie Rusong  
Mr. Zhong Xuyi

## Non-executive Director

Mr. Chen Zexing

## Independent Non-executive Directors

Dr. De-Chao Michael Yu  
Mr. Guo Sheng  
Mr. Chan Wan Tsun Adrian Alan

The biographies of the Directors are set out under the section headed “Biographical Details of Directors and Senior Management” of this annual report.

The Board considers that the composition of the Board provides a strong independent element with a balance of skills, experience and diversity of perspectives appropriate for the requirements of the business of the Company.

During the period from the Listing Date to the date of the Annual Report, the Board has met at all times the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

During the period from the Listing Date to the date of the Annual Report, the Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent as at the date of the Annual Report.

Save as disclosed in the biographies of the Directors as set out in the section headed “Biographical Details of Directors and Senior Management” of the Annual Report, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Directors or any chief executive.





## CORPORATE GOVERNANCE REPORT

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and expertise to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the code provision under the CG Code requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

### Board Diversity Policy

To enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to Board Diversity Policy, we seek to achieve board diversity by taking into consideration of various factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service.

Our Directors have a balanced mix of knowledge, skills and experience, including the areas of accounting, asset management, consumer goods and computer industries. They obtained academic degrees in various majors, including business administration, accounting, computer and marketing. We have three independent non-executive Directors with different industry backgrounds, representing one-third of the members of our Board. Furthermore, our Board has a wide range of age, ranging from 31 years old to 57 years old. We have also taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to the Board and the management levels. While we recognize that the gender diversity at the Board can be improved, we will continue to apply the principle of appointments based on merits with reference to our Board Diversity Policy.

Our Nomination Committee is responsible for ensuring the diversity of our Board members and compliance with relevant codes governing board diversity under the CG Code. Our Nomination Committee will review and revisit the Board Diversity Policy and our diversity profile (including gender balance) at least once annually to ensure its continued effectiveness and discuss any revisions that may be required, and recommend any such revisions to our Board for consideration and approval. We will also disclose in our corporate governance report about the implementation of the Board Diversity Policy on an annual basis.



## CORPORATE GOVERNANCE REPORT

### Induction and Continuous Professional Development

Each newly appointed Directors would be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide the Directors with updates on the latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided the Directors with written training materials in relation to their roles, functions and duties.

Prior to the Listing, all Directors have been given the training regarding the directors' duties and responsibilities, corporate governance and regulatory updates and relevant reading materials including compliance manual/legal and regulatory updates/seminar handouts have been provided to the Directors for their reference and studying.

Based on the information provided by the Directors, during the period from the Listing Date to the date of the Annual Report, the Directors received the following trainings and updates in 2020:

<b>Name of Directors</b>	<b>Attending seminars and/or conferences and/or forums relation to rules and regulations or duties of the directors</b>	<b>Reading newspapers, journals and updates relating to the economy and business management and duties of directors</b>
<i>Executive Directors</i>		
Ms. Chen Danxia	✓	✓
Mr. Xie Rusong	✓	✓
Mr. Zhong Xuyi	✓	✓
<i>Non-executive Director</i>		
Mr. Chen Zexing	✓	✓
<i>Independent Non-executive Directors</i>		
Dr. De-Chao Michael Yu	✓	✓
Mr. Guo Sheng	✓	✓
Mr. Chan Wan Tsun Adrian Alan	✓	✓



## CORPORATE GOVERNANCE REPORT

### Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, which requires the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

However, the Company does not have a separate chairman and president and the responsibility of both chairman and chief executive officer vest in Ms. Chen Danxia. The Board believes that vesting the responsibilities of both chairman and chief executive officer in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning of the Group. Besides, with three independent non-executive Directors out of a total of seven Directors in the Board, there will be sufficient independent voice within the Board to protect the interests of the Company and the Shareholders as a whole.

Therefore, the Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

### Appointment and Re-Election of Directors

Each of Ms. Chen Danxia, Mr. Xie Rusong and Mr. Zhong Xuyi, an executive Director, has entered into a service contract with the Company for an initial fixed term of three years commencing from 19 February 2021 and subject to termination in accordance with their respective terms and may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

Mr. Chen Zexing, a non-executive Director, has entered into a letter of appointment with the Company, for an initial fixed term of three years commencing from 19 February 2021 and subject to termination in accordance with his term.

Each of Dr. De-Chao Michael Yu, Mr. Guo Sheng and Mr. Chan Wan Tsun Adrian Alan, an independent non-executive Director, has entered into a letter of appointment with the Company for an initial fixed term of three years commencing from 19 February 2021 and subject to termination in accordance with their respective terms.

Save as disclosed above, none of the Directors has entered into, or has proposed to enter into, a service contract or letter of appointment with the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).



## CORPORATE GOVERNANCE REPORT

In accordance with Article 84(1) of the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Accordingly, Ms. Chen Danxia, Mr. Xie Rusong, Mr. Zhong Xuyi shall retire by rotation at the AGM and they being eligible, offer themselves for re-election.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, and for making recommendations to the Board on the appointment, re-appointment of Directors and succession plans for the Directors.

### Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of no less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board meetings and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying Board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings shall be kept by the company secretary of the Company with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by the Directors.



## CORPORATE GOVERNANCE REPORT

During the period from the Listing Date to the date of the Annual Report, one Board meeting was held. The Company did not convene any general meeting for the period from the Listing Date to the date of the Annual Report. The attendance of each Director at the Board meeting is set out below:

<b>Name of Directors</b>	<b>Attended/Eligible to attend the Board meeting</b>
<i>Executive Directors</i>	
Ms. Chen Danxia	1/1
Mr. Xie Rusong	1/1
Mr. Zhong Xuyi	1/1
<i>Non-executive Director</i>	
Mr. Chen Zexing	1/1
<i>Independent Non-executive Directors</i>	
Dr. De-Chao Michael Yu	1/1
Mr. Guo Sheng	1/1
Mr. Chan Wan Tsun Adrian Alan	1/1

### Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions since the Listing Date. Having made specific enquiry with the Directors, all of the Directors confirmed that he/she has complied with the required standards as set out in the Model Code during the period from the Listing Date and up to the date of the Annual Report.

### Delegation by the Board

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. The Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.



# CORPORATE GOVERNANCE REPORT

## Corporate Governance Function

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board confirmed that corporate governance is a collective responsibility of the Directors, which corporate governance functions includes:

- (a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (b) to review and monitor the training and continuous professional development of the Directors and senior management;
- (c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and the Directors;
- (d) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on matters; and
- (e) to review the Company's compliance with the CG Code and disclosures in the Corporate Governance Report.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and written employee guidelines, and the Company's compliance with the Code and disclosure in this Corporate Governance Report.

## BOARD COMMITTEES

### Audit Committee

The Audit Committee comprises three members, namely Mr. Chan Wan Tsun Adrian Alan, Dr. De-Chao Michael Yu and Mr. Guo Sheng, being all independent non-executive Directors. The Audit Committee is chaired by Mr. Chan Wan Tsun Adrian Alan.

The terms of reference of the Audit Committee are in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of our Audit Committee are to review, supervise and approve our financial reporting process and internal control system and to provide advice and comments to our Board. The written terms of reference of Audit Committee are available on the websites of the Stock Exchange and the Company.



## CORPORATE GOVERNANCE REPORT

Due to the fact that the Company was listed on 10 March 2021, no Audit Committee meeting was held during the year ended 31 December 2020.

From the Listing Date to the date of the Annual Report, one meeting of the Audit Committee was held to discuss and consider the following matters:

- reviewed final results of the Company and its subsidiaries for the year ended 31 December 2020 as well as the audit report prepared by the Auditor relating to accounting issues and major findings in course of audit; and
- reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function), risk management systems and processes and the re-appointment of the Auditor; the Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of the Auditor.

The attendance of each Audit Committee member at the Audit Committee meeting during the period from the Listing Date to the date of this annual report is set out in the table below:

<b>Name of Directors</b>	<b>Attended/ Eligible to attend</b>
Mr. Chan Wan Tsun Adrian Alan	1/1
Dr. De-Chao Michael Yu	1/1
Mr. Guo Sheng	1/1

The Audit Committee also met the external auditor once without the presence of the executive Directors.

### Nomination Committee

The Nomination Committee currently comprises three members, including one executive Director, namely, Ms. Chen Danxia, and two independent non-executive Directors, namely, Dr. De-Chao Michael Yu and Mr. Guo Sheng. The Nomination Committee is chaired by Ms. Chen Danxia.

The terms of reference of the Nomination Committee are in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary responsibilities of our nomination committee are to consider and recommend to our Board on the appointment and removal of Directors and to review the structure, size and composition of our Board and the board diversity policy adopted by our Company on regular basis.

The written terms of reference of Nomination Committee are available on the websites of the Stock Exchange and the Company.



## CORPORATE GOVERNANCE REPORT

### Policy on Directors Nomination

The Company has adopted a nomination policy (the “**Nomination Policy**”), which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors. The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process as set out in the Nomination Policy:

- (i) the Nomination Committee will, giving the consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort on suitable candidates;
- (ii) the Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertisements, recommendations from an independent agency firm and proposals from Shareholders with due consideration given to the criteria set out in the Nomination Policy;
- (iii) the Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as conducting interviews, background checks, presentations and third-party reference checks;
- (iv) upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;
- (v) the Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and
- (vi) the Board will have the final authority in determining the selection of nominees and all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be).

In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Since the Listing Date up to the date of the Annual Report, there was no change in the composition of the Board.

Due to the fact that the Company was listed on 10 March 2021, no Nomination Committee meeting was held during the year ended 31 December 2020.





## CORPORATE GOVERNANCE REPORT

From the Listing Date to the date of this annual report, one meeting of the Nomination Committee was held to discuss and consider the following matters:

- reviewed the structure, size and composition of the Board;
- assessed independence of the independent non-executive Directors;
- reviewed the Nomination Policy;
- reviewed the Board Diversity Policy; and
- considered the re-appointment of the retiring Directors.

The attendance of each Nomination Committee member at the Nomination Committee meeting during the period from the Listing Date to the date of the Annual Report is set out in the table below:

<b>Name of Directors</b>	<b>Attended/ Eligible to attend</b>
Ms. Chen Danxia	1/1
Dr. De-Chao Michael Yu	1/1
Mr. Guo Sheng	1/1

### Remuneration Committee

The Remuneration Committee currently comprises three members, including one executive Director, namely, Ms. Chen Danxia, and two independent non-executive Directors, namely, Mr. Guo Sheng and Dr. De-Chao Michael Yu. The Remuneration Committee is chaired by Mr. Guo Sheng.

The terms of reference of the Remuneration Committee are in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to review and recommend to our Board the remuneration and other benefits paid by us to our Directors and senior management as well as to regularly monitor the appropriacy of levels of the remuneration and compensation of the Directors and senior management.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

Due to the fact that the Company was listed on 10 March 2021, no Remuneration Committee meeting was held during the year ended 31 December 2020.



## CORPORATE GOVERNANCE REPORT

From the Listing Date to the date of the Annual Report, one meeting of the Remuneration Committee was held to discuss and consider the following matters:

- reviewed the remuneration of the Directors and senior management of the Company for the year of 2020;
- reviewed the remuneration policy and structure for the Directors and senior management of the Company for the year of 2021; and
- made recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration.

The attendance of each Remuneration Committee member at the Remuneration Committee meeting during the period from the Listing Date to the date of the Annual Report is set out in the table below:

<b>Name of Directors</b>	<b>Attended/ Eligible to attend</b>
Mr. Guo Sheng	1/1
Dr. De-Chao Michael Yu	1/1
Ms. Chen Danxia	1/1

### Remuneration of Directors and Senior Management

The aggregate remuneration (including fees, salaries, bonuses, allowances, benefits in kind and pension scheme contributions) payable to the directors for the year ended 31 December 2020 was approximately RMB4.5 million.

The remuneration of the Directors is determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group. Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 17 to 22 of the Annual Report, for the year ended 31 December 2020, are set out below:

<b>Band of remuneration</b>	<b>Number of individuals</b>
Nil to RMB1,000,000	6
Over RMB1,000,000	7



## CORPORATE GOVERNANCE REPORT

### DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company from the Listing Date to the date of the Annual Report which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company has provided all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the Auditor regarding its reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 51 to 55 of the Annual Report.

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control and risk management systems in order to safeguard the Company's assets and the Shareholders' interests and reviewing the effectiveness of the Company's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has established comprehensive risk management and internal control processes through which the Company monitors, evaluates and manages the risks that the Company is exposed to its business activities. The risk management procedure of the Company is based on the well-defined risk identification standards, risk monitor responsibilities and risk control measure of each major classification. The management of the Company actively monitors the regional economy, trend of property management services industry, reliance on continuing connected transactions and changes in applicable laws and regulations, and assesses income and expenditure and absorptive capacity of business expansions. The recommendations submitted by independent consultant have been accepted by the Company and implemented in stages, to further enhance the policies, procedures and practices of its internal control and risk management. The risk management procedure of the Company clearly specifies the management duties, authorization and approval of each party in respect of the major risk identification and management, and develops clear written policy for significant risk management process and circulate it to all managements and staffs. The Company's internal control procedures are designed to provide reasonable assurance for achieving objectives, including efficient and stable operations, reliable financial reporting and compliance with applicable laws and regulations.



## CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Board has conducted a review of the effectiveness of the internal control system of the Group and considered the internal control system to be effective and adequate.

The Company has adopted various measures to ensure the effective implementation of the internal control system, including (i) establishing an Audit Committee to review and supervise our financial reporting process and internal control system; (ii) adopting various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure; (iii) organizing training sessions for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong; (iv) conducting regular internal training for our employees and management on applicable laws and regulations to ensure awareness and compliance which cover various aspects of employee behavior during the ordinary business operations; and (v) appointing HeungKong Capital Limited as our compliance adviser to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

The Company has adopted an inside information policy in accordance with the SFO and the Listing Rules to ensure the confidentiality of handling inside information and the publication of respective disclosure to the public as soon as practicable. The Company will make corresponding information disclosure timely with regard to information that is unlikely to maintain confidentiality, so as to ensure effective protection of the rights and interests of investors and stakeholders.

In conclusion, the Company believes that its internal control system is sufficient and effective.

### DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that our Board considers appropriate. Any proposed distribution of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Board may recommend a distribution of dividends in the future after taking into account our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. Subject to the Companies Act and other applicable laws and regulations, the Company currently intend to pay approximately 25% of our consolidated profit attributable to Shareholders (excluding net fair value gains/losses and net exchange loss/gain (if any)) as dividends from the financial year ending December 31, 2020. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year. The declaration and payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter in the future.



## CORPORATE GOVERNANCE REPORT

### AUDITOR'S REMUNERATION

The remuneration paid/payable to the Auditor in respect of audit services and non-audit services for the year ended 31 December 2020 amounted to RMB2,000,000 and RMB4,864,000 respectively. An analysis of the remuneration paid/payable to the Auditor, in respect of audit services and non-audit services for the year ended 31 December 2020 is set out below:

<b>Service category</b>	<b>Fees paid/payable RMB'000</b>
Audit services	2,000
Non-audit services	
– Initial public offering of the Group	4,864
	6,864

### COMPANY SECRETARY

Directors have access to the services of the joint company secretaries to ensure that the Board procedures are followed. Ms. Wang Dong (“**Ms. Wang**”), one of the joint company secretaries, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures and applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Ms. Leung Shui Bing (“**Ms. Leung**”), a manager of the Listing Services Department of TMF Hong Kong Limited (a global corporate services provider), as another joint company secretary to assist Ms. Wang in discharging her duties as company secretary of the Company. Ms. Leung’s primary corporate contact person at the Company is Ms. Wang.

During the year ended 31 December 2020, Ms. Leung has undertaken not less than 15 hours of relevant professional training respectively in compliance with rule 3.29 of the Listing Rules. As the Company listed on the Stock Exchange on 10 March 2021, Ms. Wang will be obliged to comply with Rule 3.29 of the Listing Rules in 2021.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Company’s business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The AGM provides an opportunity for constructive communication between the Company and the Shareholders. The Chairman and the chairmen of the Board Committees of the Company or their delegates will attend the AGMs to answer Shareholders’ questions. The Auditor will also attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor’s report, the accounting policies and auditor independence.



## CORPORATE GOVERNANCE REPORT

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at [www.cheerwin.com](http://www.cheerwin.com), where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

### SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, separate resolution on each substantially separate issue will be proposed for voting at the general meeting, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

#### Convening of extraordinary general meeting and putting forward proposals

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as at date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

#### Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the head office of the Company at No. 2, Luju Road, Liwan District, Guangzhou, Guangdong Province, China by mail or e-mail [cheerwinhq@cheerwin.com](mailto:cheerwinhq@cheerwin.com).

### CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company adopted amended and restated memorandum of association on 19 February 2021, which has been effective from 19 February 2021 and adopted amended and restated articles of association on 19 February 2021, which has been effective from the Listing Date. From the Listing Date to the date of the Annual Report, the said amended and restated memorandum and articles of association did not have any change.



# INDEPENDENT AUDITOR'S REPORT

**Deloitte.**

德勤

**TO THE SHAREHOLDERS OF CHEERWIN GROUP LIMITED**

(incorporated in Cayman Islands with limited liability)

## Opinion

We have audited the consolidated financial statement of Cheerwin Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as “**the Group**”) set out on pages 56 to 126, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis of Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (“**the Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

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



## INDEPENDENT AUDITOR'S REPORT

### Key audit matter

#### Allowance for finished goods

We identified the allowance for finished goods as a key audit matter due to the significance of the balance to the consolidated financial statements and the management judgments and estimations involved in the identification of aged, obsolete and damaged finished goods and the determination of the net realisable value of the finished goods.

Due to seasonality, the Group usually maintains higher amount of finished goods at the end of the reporting period to prepare for peak seasons in coming first and second quarters. The management identified the aged, obsolete and damaged finished goods based on aging, expiry date and/or current market conditions of the finished goods and determined the net realisable value based on the selling prices of finished goods subsequent to the end of reporting period less costs necessary to make the sales.

As disclosed in note 4 to the consolidated financial statements, as at 31 December 2020, the carrying amount of finished goods was approximately RMB270,555,000, net of provision for allowance of approximately RMB4,150,000.

### How our audit addressed the key audit matter

Our procedures in relation to allowance for finished goods included:

- Obtaining an understanding of the Group's allowance policy on finished goods and the key controls on the management's process over the identification of aged, obsolete and damaged finished goods and the determination of the net realisable value of the finished goods; and
- Evaluating the reasonableness of the Group's allowance on finished goods by;
  - Testing the aging analysis of finished goods, on a sample basis, to the production reports;
  - Testing the expiry date of finished goods, on a sample basis, to the product labels;
  - Tracing the latest selling prices, on a sample basis, to the relevant sales invoices; and
  - Performing retrospective review of the accuracy of management's assessment relating to the allowance for finished goods.





## INDEPENDENT AUDITOR'S REPORT

### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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



## INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



## INDEPENDENT AUDITOR'S REPORT

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in the independent auditor's report is Chan Men.

### **Deloitte Touche Tohmatsu**

Certified Public Accountants

Hong Kong

26 March 2021



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	NOTES	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Revenue	5	1,702,154	1,383,402
Cost of sales		(959,572)	(783,542)
Gross profit		742,582	599,860
Other income	6	39,826	42,103
Other gains and losses	7	(17,754)	230
Impairment losses in respect of trade receivables, net of reversal		(1,807)	265
Selling and distribution expenses	8	(372,030)	(334,228)
Administrative expenses		(84,580)	(62,415)
Finance costs	9	(2,645)	(299)
Listing expenses		(10,260)	(13,300)
Profit before tax		293,332	232,216
Income tax expense	10	(60,423)	(47,856)
Profit for the year	11	232,909	184,360
<i>Other comprehensive income</i>			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of a foreign operation		11	–
Total comprehensive income for the year		232,920	184,360
Profit (loss) for the year attributable to:			
– Owners of the Company		223,781	185,164
– Non-controlling interests		9,128	(804)
		232,909	184,360
Total comprehensive income (expense) for the year attributable to:			
– Owners of the Company		223,787	185,164
– Non-controlling interests		9,133	(804)
		232,920	184,360
Earnings per share			
– Basic (cents)	14	22.49	18.70



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

		As at 31 December	
		2020	2019
	NOTES	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	152,812	135,523
Right-of-use assets	16	14,872	16,635
Deposits paid for acquisition of property, plant and equipment		5,160	7,033
Deferred tax assets	17	37,313	29,029
Pledged bank deposits	21	–	3,026
		<b>210,157</b>	191,246
<b>CURRENT ASSETS</b>			
Inventories	18	359,794	373,266
Trade and other receivables	19	102,167	91,108
Tax recoverable		3,802	7,669
Amounts due from shareholders	24	–	1
Amounts due from related parties	20	47,739	51,553
Bank balances and cash	21	884,766	511,035
		<b>1,398,268</b>	1,034,632
<b>CURRENT LIABILITIES</b>			
Trade and other payables	22	411,380	338,595
Contract liabilities	23	486,752	455,905
Amounts due to related parties	20	110,222	196,050
Amounts due to shareholders	24	–	207,383
Lease liabilities	25	1,783	3,225
Income tax payables		42,658	3,910
Bank borrowing	26	300,000	–
		<b>1,352,795</b>	1,205,068
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<b>45,473</b>	(170,436)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>255,630</b>	20,810
<b>NON-CURRENT LIABILITY</b>			
Lease liabilities	25	5,096	6,880
<b>NET ASSETS</b>		<b>250,534</b>	13,930
<b>CAPITAL AND RESERVES</b>			
Share capital/paid-in capital	27	1	28,501
Reserves		247,680	(15,267)
Equity attributable to owners of the Company		247,681	13,234
Non-controlling interests		2,853	696
<b>TOTAL EQUITY</b>		<b>250,534</b>	13,930

The consolidated financial statements on pages 56 to 126 were approved and authorised for issue by the Board of Directors on 26 March 2021 and are signed on its behalf by:

Zhong Xuyi  
DIRECTOR

Chen Danxia  
DIRECTOR



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company									
	Share capital/ paid in capital RMB' 000	Share premium RMB' 000	Capital reserves RMB' 000	Translation reserve RMB' 000	Merger reserve RMB' 000 (Note a)	Statutory reserve RMB' 000 (Note b)	Retained profits (losses) RMB' 000	Total RMB' 000	Non- controlling interests RMB' 000	Total equity RMB' 000
At 1 January 2019	80,602	-	399	-	-	22,241	22,529	125,771	-	125,771
Profit (loss) and total comprehensive income (expense) for the year	-	-	-	-	-	-	185,164	185,164	(804)	184,360
Dividends recognised as distribution (Note 13)	-	-	-	-	-	-	(216,676)	(216,676)	-	(216,676)
Deemed distributions arising from group reorganisation (Note 1 (vii), (x), (xii), (xiv) and (xv))	(52,101)	-	-	-	(28,924)	-	-	(81,025)	1,500	(79,525)
Transfer to statutory reserve	-	-	-	-	-	1,031	(1,031)	-	-	-
At 31 December 2019	28,501	-	399	-	(28,924)	23,272	(10,014)	13,234	696	13,930
Profit for the year	-	-	-	-	-	-	223,781	223,781	9,128	232,909
Other comprehensive income for the year	-	-	-	6	-	-	-	6	5	11
Total comprehensive income for the year	-	-	-	6	-	-	223,781	223,787	9,133	232,920
Deemed distributions arising from group reorganisation (Note 1 (xvi) and (xvii))	(28,500)	-	-	-	7,894	-	-	(20,606)	(10,314)	(30,920)
Issue of shares of the Company (Note 1 (xviii))	-	1,550	-	-	-	-	-	1,550	-	1,550
Capital injection from the non-controlling interests	-	-	-	-	-	-	-	-	3,338	3,338
Capital injection from the Controlling Shareholders (as defined in Note 1)	-	-	29,716	-	-	-	-	29,716	-	29,716
Transfer to statutory reserve	-	-	-	-	-	3,792	(3,792)	-	-	-
At 31 December 2020	1	1,550	30,115	6	(21,030)	27,064	209,975	247,681	2,853	250,534

Notes:

- (a) The amounts represented the difference between the acquisition considerations of group entities comprising the Group under Group Reorganisation (as defined and detailed in Note 1) and the paid-up capital of the relevant group entities at the date of acquisition.
- (b) Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), subsidiaries established in the PRC are required to transfer a portion of the profit after taxation to the statutory surplus reserve as approved by the respective boards of directors annually. The appropriation is 10% of profit after tax at a minimum and should cease when it reaches 50% of the registered capital of the relevant PRC subsidiaries. The statutory reserve, which is non-distributable, can be used (i) to offset the prior year losses, if any, and/or (ii) in capital conversion.



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
<b>OPERATING ACTIVITIES</b>		
Profit before tax	293,332	232,216
Adjustments for:		
Impairment losses in respect of trade receivables, net of reversal	1,807	(265)
Depreciation of property, plant and equipment	11,685	9,997
Depreciation of right-of-use assets	3,234	2,231
Bank interest income	(4,674)	(1,193)
Investment income	(5,325)	(3,730)
Finance costs	2,645	299
Write-down of inventories	1,271	1,799
Losses (gains) on disposal/write-off of property, plant and equipment	13	(230)
Non-cash donations	18,454	–
Operating cash flows before movements in working capital	322,442	241,124
(Increase) decrease in inventories	(6,253)	109,753
Increase in trade and other receivables	(12,866)	(30,286)
Decrease (increase) in amounts due from related parties	3,813	(33,682)
Increase (decrease) in trade and other payables	81,406	(53,615)
Increase in contract liabilities	30,847	301,848
(Decrease) increase in amounts due to related parties	(10,568)	4,052
Cash generated from operations	408,821	539,194
Income tax paid	(26,092)	(66,573)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>382,729</b>	<b>472,621</b>
<b>INVESTING ACTIVITIES</b>		
Bank interest income received	4,674	1,193
Receipt of investment income from financial assets at fair value through profit or loss (“FVTPL”)	5,325	3,730
Purchase and deposits paid for acquisition of property, plant and equipment	(30,427)	(30,049)
Proceeds on disposal of property, plant and equipment	41	534
Payments for leasehold lands	(1,471)	(87)
Purchase of financial assets at FVTPL	(1,268,576)	(1,761,000)
Proceeds on disposal of financial assets at FVTPL	1,268,576	1,786,000
Placement of pledged bank deposits	–	(9)
Withdrawal of pledged bank deposits	3,026	–
Advances to related parties	–	(1)
Repayments from shareholders	1	–
Repayments from related parties	1	59,474
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(18,830)</b>	<b>59,785</b>



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(221,311)	(220,950)
Consideration paid for acquisition of group entities pursuant to Group Reorganisation (Note 1)	(101,470)	(7,423)
Share issue cost paid	(5,227)	(207)
Finance costs paid	(2,645)	(299)
Repayments of lease liabilities	(3,226)	(2,389)
New bank borrowing raised	300,000	–
Advance from a related party	10,768	–
Capital injection from the Controlling Shareholders	29,716	–
Capital injection from the non-controlling interests	3,338	–
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>9,943</b>	<b>(231,268)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>373,842</b>	<b>301,138</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>511,035</b>	<b>209,897</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>(111)</b>	<b>–</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		
<b>REPRESENTED BY BANK BALANCES AND CASH</b>	<b>884,766</b>	<b>511,035</b>





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1. GENERAL AND GROUP REORGANISATION

Cheerwin Group Limited (the “Company”) was incorporated as an exempted company in the Cayman Islands with limited liability on 11 April 2018 under the Companies Act, Cap. 22 of the Cayman Islands. Its immediate holding company is Cheerwin Global Limited (“Cheerwin Global BVI”), a company incorporated in the British Virgin Islands (the “BVI”) on 27 March 2018. The ultimate controlling shareholders of the Company are Mr. Chen Kaixuan (“Mr. KX Chen”), Ms. Li Ruohong (“Ms. Li”), the spouse of Mr. KX Chen, Mr. Chen Kaichen (“Mr. KC Chen”) and Ms. Ma Huizhen (“Ms. Ma”), the spouse of Mr. KC Chen (collectively referred as “Controlling Shareholders”). The shares of the Company had been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 10 March 2021.

The address of the registered office and the principal place of business of the Company in Hong Kong and the PRC are disclosed in the corporate information section of the annual report of the Company for the year ended 31 December 2020.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are manufacturing and trading of household insecticides and repellents, household cleaning, air care, personal care, pet care and other products in the PRC.

In preparation for the listing of the Company’s shares on the Stock Exchange (the “Listing”), the companies comprising the Group underwent a group reorganisation (the “Group Reorganisation”) as described below. Prior to the Group Reorganisation, the operating subsidiaries of the Group comprise:

- (a) Guangzhou Cheerwin Biotechnology Company Limited\* (廣州超威生物科技有限公司) (“Cheerwin Biotechnology”), a company established in the PRC;
- (b) Guangzhou Cheerwin Household Chemicals Company Limited\* (廣州超威日用化學用品有限公司) (“Panyu Cheerwin”), a company established in the PRC;
- (c) Anfu Cheerwin Rihua Company Limited\* (安福超威日化有限公司) (“Anfu Cheerwin”), a company established in the PRC;
- (d) Guangzhou Tongli Daily Supplies Company Limited\* (廣州通力日用品有限公司) (“Guangzhou Tongli”), a company established in the PRC;
- (e) Guangzhou Yuncheng Network Technology Company Limited\* (廣州雲成網絡科技有限公司) (“Guangzhou Yuncheng”), a company established in the PRC;
- (f) Guangzhou Leda Automobile Supplies Company Limited\* (廣州樂達汽車用品有限公司) (“Leda Automobile”), a company established in the PRC;



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1. GENERAL AND GROUP REORGANISATION (continued)

- (g) Shanghai Runzhisu Biotechnology Company Limited\* (上海潤之素生物科技有限公司) (“Shanghai Runzhisu”), a company established in the PRC;
- (h) Guangzhou Yuntuo E-commerce Company Limited\* (廣州雲拓電子商務有限公司) (“Guangzhou Yuntuo”), a company established in the PRC; and
- (i) Shanghai Cheerwin Biotechnology Company Limited\* (上海朝雲生物科技有限公司) (“Shanghai Cheerwin”), a company established in the PRC.

\* The translation of name in English is for identification purposes only.

These operating subsidiaries have been under the collective control of the Controlling Shareholders before and after the Group Reorganisation, and interests held by parties other than the Controlling Shareholders before the completion of the Group Reorganisation are presented as non-controlling interests of the Group in the consolidated financial statements.

The major steps of the Group Reorganisation include the following:

- (i) On 27 March 2018, Cheerwin Global BVI was incorporated as a limited liability company under the laws of BVI authorised to issue a maximum number of 50,000 shares of par value of United States dollars (“USD”) 1 each. On the same date, 65 shares and 35 shares in Cheerwin Global BVI were allotted and issued at par to Ms. Li and Ms. Ma, respectively.
- (ii) On 27 March 2018, Cheerwin Group Limited (“Cheerwin Group BVI”) was incorporated as a limited liability company under the laws of BVI authorised to issue a maximum number of 50,000 shares of par value of USD1 each. On the same date, 65 shares and 35 shares in Cheerwin Group BVI were allotted and issued at par to Ms. Li and Ms. Ma, respectively.
- (iii) On 13 April 2018, Cheerwin Group Limited (“Cheerwin Group HK”) was incorporated in Hong Kong as a limited company with an issued share capital of HK\$100 divided into 100 shares of Hong Kong dollars (“HK\$”) 1 each. On the same date, 65 shares and 35 shares in Cheerwin Group HK were allotted and issued to Ms. Li and Ms. Ma, respectively, at a cash consideration of HK\$100.

On 13 April 2018, Cheerwin Global Limited (“Cheerwin Global HK”) was incorporated in Hong Kong as a limited company with an issued share capital of HK\$100 divided into 100 shares of HK\$1 each. On the same date, 65 shares and 35 shares in Cheerwin Group HK were allotted and issued to Ms. Li and Ms. Ma, respectively, at a cash consideration of HK\$100.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1. GENERAL AND GROUP REORGANISATION (continued)

- (iv) On 11 April 2018, the Company was incorporated under the Companies Act, Cap. 22 of the Cayman Islands as an exempted company with limited liability. The initial authorised share capital of the Company was USD50,000 divided into 50,000 shares with a par value of USD1 each. Upon incorporation, 65 shares and 35 shares in the Company were allotted and issued at par to Ms. Li and Ms. Ma, respectively.
- (v) On 19 October 2018, Guangzhou Cheerwin Holding Company Limited\* (廣州朝雲控股有限公司) (“Guangzhou Cheerwin”) was established under the laws of the PRC with a registered capital of RMB30,000,000 divided into 30,000,000 shares and fully paid up in cash by the Controlling Shareholders.
- (vi) On 14 November 2018 and 19 November 2018, Guangzhou Cheerwin established two wholly-owned subsidiaries, Guangzhou Yuntuo and Shanghai Runzhisu under the laws of the PRC, each with a registered capital of RMB1,000,000 divided into 1,000,000 shares.
- (vii) On 27 March 2019, Ms. Li and Ms. Ma transferred their entire equity interests in Cheerwin Group HK to Cheerwin Group BVI at a cash consideration of HK\$100. On 27 March 2019, Ms. Li and Ms. Ma transferred their entire equity interests in Cheerwin Group BVI to the Company at a cash consideration of USD100. Upon the completion of the transfers, Cheerwin Group HK and Cheerwin Group BVI became the wholly-owned subsidiaries of the Company.
- (viii) On 27 March 2019, Ms. Li and Ms. Ma transferred their entire equity interests in the Company to Cheerwin Global BVI, and as a consideration, 5,850 shares and 3,150 shares in Cheerwin Global BVI were allotted and issued to Ms. Li and Ms. Ma, respectively.
- (ix) On 27 March 2019, Cheerwin Global BVI further allotted and issued 650 shares and 350 shares at par to Mr. KX Chen and Mr. KC Chen, respectively. Upon completion of the above allotment and issues, Cheerwin Global BVI was held as to 58.5%, 31.5%, 6.5% and 3.5% by Ms. Li, Ms. Ma, Mr. KX Chen and Mr. KC Chen, respectively.
- (x) On 16 May 2019, the Controlling Shareholders transferred 5% of equity interest in Guangzhou Cheerwin to Bestart (Hong Kong) Investments Company Limited (“Bestart HK”), a company incorporated in Hong Kong and wholly owned by Mr. Mao Mao (“Mr. Mao”), who is independent to the Group, at a cash consideration of RMB1,500,000.

\* The translation of name in English is for identification purposes only.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1. GENERAL AND GROUP REORGANISATION (continued)

- (xi) On 29 July 2019, Guangzhou Cheerwin established a wholly-owned subsidiary, Shanghai Cheerwin under the laws of the PRC with a registered capital of RMB5,000,000, divided into 5,000,000 shares.
- (xii) On 7 November 2019, Guangzhou Cheerwin acquired the entire equity interests in Cheerwin Biotechnology from the Controlling Shareholders for a cash consideration of RMB7,801,000.
- (xiii) On 27 November 2019, Guangzhou Cheerwin acquired the entire equity interests in Guangzhou Tongli, Guangzhou Yuncheng and Leda Automobile from Cheerwin Biotechnology for an aggregate cash consideration of RMB1,830,000.
- (xiv) On 10 December 2019, Cheerwin Biotechnology acquired 52% of equity interest in Panyu Cheerwin from a company and a limited partnership owned and controlled by the Controlling Shareholders for a cash consideration of RMB18,046,000.
- (xv) On 31 December 2019, Cheerwin Biotechnology acquired the entire equity interest in Anfu Cheerwin from the Controlling Shareholders and a company controlled by the Controlling Shareholders for an aggregate cash consideration of RMB53,677,000.
- (xvi) On 24 June 2020, Cheerwin Group HK acquired 95% of equity interest in Guangzhou Cheerwin from the Controlling Shareholders for a cash consideration of RMB29,370,000.
- (xvii) On 24 June 2020, Cheerwin Group HK acquired the remaining 5% of equity interest in Guangzhou Cheerwin from Bestart HK for a cash consideration of RMB1,550,000. Upon the completion of the acquisition, Guangzhou Cheerwin and its wholly-owned subsidiaries became the wholly-owned subsidiaries of the Company.
- (xviii) On 24 June 2020, the Company further allotted and issued 100 shares, among 98 shares were allotted and issued at par to Cheerwin Global BVI and 2 shares were allotted and issued to Bestart International Holdings Limited (“Bestart BVI”), a company incorporated in the BVI and wholly owned by Mr. Mao at a cash consideration of RMB1,550,000. Upon the completion of the above allotment and issues, the Company was held as to 99% and 1% by Cheerwin Global BVI and Bestart BVI, respectively.
- (xix) On 26 June 2020, Cheerwin Group HK acquired the entire equity interests in Cheerwin Global HK from the Controlling Shareholders for a cash consideration of HK\$100.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1. GENERAL AND GROUP REORGANISATION (continued)

Pursuant to the Group Reorganisation detailed above, the Company has become the holding company of the companies now comprising the Group on 26 June 2020. The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity, as the Company and its subsidiaries have been under the collective control of the Controlling Shareholders before and after the Group Reorganisation, or since their respective dates of incorporation/establishment/acquisition by the Company, where is a shorter period. Accordingly, the consolidated financial statements have been prepared as if the Company had always been the holding company of the Group.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

## 2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The Group has consistently applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”), which are effective for the annual period beginning on 1 January 2020 for the preparation of the consolidated financial statements.

### New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments <sup>1</sup>
Amendment to IFRS 16	Covid-19-Related Rent Concessions <sup>4</sup>
Amendments to IFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to IFRS 9, International Accounting Standard (“IAS”) 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 <sup>5</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>1</sup>
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to IAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use <sup>2</sup>
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>2</sup>
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018 – 2020 <sup>2</sup>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

### New and amendments to IFRSs in issue but not yet effective (continued)

- 1 Effective for annual periods beginning on or after 1 January 2023.
- 2 Effective for annual periods beginning on or after 1 January 2022.
- 3 Effective for annual periods beginning on or after a date to be determined.
- 4 Effective for annual periods beginning on or after 1 June 2020.
- 5 Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payments*, leasing transactions that are within the scope of IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.1 Basis of preparation of consolidated financial statements (continued)

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

### 3.2 Significant accounting policies

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Basis of consolidation (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

#### Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

#### Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Merger accounting for business combination involving entities under common control (continued)

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period. The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

#### Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Revenue from contracts with customers (continued)

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9 *Financial Instruments*. In contract, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Specifically, revenue is recognised as follows:

#### *Sales of goods*

The Group sells household insecticides and repellents, household cleaning, air care, personal care, pet care and other cleaning products to customers. Revenue is recognised when control of the goods has transferred according to respective agreed terms of delivery. Revenue is recognised at a point in time when the customer obtains control of the distinct good.

For contracts that contain variable consideration (e.g. sales returns or volume rebates), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Revenue from contracts with customers (continued)

##### *Sales of goods (continued)*

The Group recognises a refund liability (included in trade and other payables) if the Group expects to refund some or all of the consideration received from customers.

For a sale of products with a right of return, the Group recognises all of the following:

- (a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);
- (b) a refund liability/contract liability; and
- (c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers and are presented as right to returned goods asset.

#### Leases

##### *Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

##### *Short-term leases*

The Group applies the short-term lease recognition exemption to leases for warehouses that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Leases (continued)

##### *The Group as a lessee*

##### Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

##### Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Leases (continued)

##### *The Group as a lessee (continued)*

##### Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures the lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment;
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Leases (continued)

##### *The Group as a lessee (continued)*

##### Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

#### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate). On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Retirement benefits costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

#### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Current and deferred tax are recognised in profit or loss.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Impairment on property, plant and equipment and right-of-use assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

#### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Financial instruments (continued)

##### *Financial assets*

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired.

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Financial instruments (continued)

##### *Financial assets (continued)*

##### Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables, amounts due from related parties, amounts due from shareholders, pledged bank deposits and bank balances) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and trade-related amounts due from related parties. The ECL on these assets are assessed individually for debtors with credit-impaired or significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Financial instruments (continued)

#### Financial assets (continued)

#### Impairment of financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Financial instruments (continued)

#### Financial assets (continued)

#### Impairment of financial assets (continued)

#### (ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### (iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

*Financial instruments (continued)*

*Financial assets (continued)*

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Significant accounting policies (continued)

#### Financial instruments (continued)

##### *Financial liabilities and equity instruments*

##### Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

##### Financial liabilities

Financial liabilities (including trade and other payables, amounts due to related parties, amounts due to shareholders and bank borrowing) are subsequently measured at amortised cost, using the effective interest method.

##### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next twelve months.

### Allowance for finished goods

The Group records finished goods at the lower of cost and net realisable value. Regular operational procedures have been in place to monitor the allowance of finished goods due to the significant balance involved and nature of the finished goods is subject to expiry date. Due to the seasonality, the Group usually maintains higher amount of finished goods at the end of reporting period to prepare for peak seasons in the coming first and second quarters. The management identifies the aged, obsolete and damaged finished goods based on aging, expiry date and/or current market conditions of the finished goods and determines the net realisable value for finished goods with reference to the selling price for finished goods subsequent to the end of reporting period less costs necessary to make the sales. Although the Group carries out regular reviews on the net realisable value of finished goods, the actual realisable value of finished goods is not known until the sales are concluded.

As at 31 December 2020, the carrying amounts of finished goods of the Group were approximately RMB270,555,000 (2019: RMB267,428,000), net of provision for allowance of approximately RMB4,150,000 (2019: RMB3,137,000).

### Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the management's experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. Management will increase the depreciation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. Any change in these estimates may have a material impact on the results of the Group.

As at 31 December 2020, the carrying amounts of property, plant and equipment were approximately RMB152,812,000 (2019: RMB135,523,000).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Provision of ECL for trade receivables and amounts due from related parties

Credit-impaired trade receivables, trade receivables with significant balances and trade related balances with related parties are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on internal credit ratings as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could lead to increased credit default rates.

For the non-trade related balances with related parties, the directors of the Company have performed impairment assessment, and concluded that there are no significant increase in credit risk since initial recognition of these balances. Accordingly, the loss allowance for non-trade related balances with related parties are measured at 12m ECL.

Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The information about the Group's trade receivables and amounts due from related parties and the ECL assessment is disclosed in Notes 19, 20 and 30, respectively. As at 31 December 2020, the carrying amounts of the Group's trade receivables were approximately RMB15,876,000 (2019: RMB7,166,000), net of allowance for credit losses of approximately RMB2,799,000 (2019: RMB992,000). As at 31 December 2020, the carrying amounts of the Group's amounts due from related parties (excluding prepayments to related parties) were approximately RMB47,593,000 (2019: RMB51,553,000).

### Variable consideration for volume rebates

The Group includes in the transaction price some or all of an amount of variable considerations only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group estimates variable consideration to be included in the transaction price for the sales of products with volume rebates.

The Group's volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Variable consideration for volume rebates (continued)

The Group assesses the expected annualised volume rebates regularly and accrued sales rebates are adjusted accordingly. Estimates of expected volume rebates are sensitive to changes in circumstances and the Group's past experience regarding rebate entitlements may not be representative of a customer's actual rebate entitlements in the future. As at 31 December 2020, the amounts recognised as accrued sales rebates were approximately RMB96,362,000 (2019: RMB83,910,000) for the expected volume rebates.

## 5. REVENUE AND SEGMENT INFORMATION

The Group is mainly engaged in the manufacturing and trading of household insecticides and repellents, household cleaning, air care, personal care, pet care and other products in the PRC.

### (i) Disaggregation of revenue

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue by types of products		
Household insecticides and repellents	996,011	875,948
Household cleaning	501,068	362,200
Air care	63,448	62,096
Personal care	108,427	71,495
Pet care	22,039	1,743
Others (Note)	11,161	9,920
<b>Total</b>	<b>1,702,154</b>	<b>1,383,402</b>
Timing of revenue recognition		
At a point in time	1,702,154	1,383,402

Note: Others included numerous household supplies, appliances and other products, none of them accounted for a material portion individually.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### (ii) Transaction price allocated to the remaining performance obligation for contracts with customers

As at 31 December 2020, the Group had aggregate amount of the transaction price allocated to remaining performance obligations (unsatisfied or partially unsatisfied) amounted to approximately RMB486,752,000 (2019: RMB455,905,000). The amounts were equivalent to the contract liabilities as at 31 December 2020 and 2019, which represented payments received from customers by the Group while the underlying goods are yet to be delivered.

Based on the information available to the Group at the end of the reporting period, management of the Group expects the transaction price allocated to the above unsatisfied (or partially unsatisfied) contracts as at 31 December 2020 and 2019 will be recognised as revenue within next twelve months.

### (iii) Segment information

Revenue and operating result of the Group are reported to the executive directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and performance assessment. The accounting policies are the same as the Group’s accounting policies described in Note 3. No other analysis of the Group’s results nor assets and liabilities is regularly provided to the CODM for review and the CODM reviews the overall results and financial position of the Group as a whole. Accordingly, the CODM has identified one operating segment and only entity-wide disclosures on revenue, major customers and geographical information are presented in accordance with IFRS 8 *Operating Segments*.

### (iv) Geographic information

The Group principally operates in the PRC, which is also the place of domicile. The Group’s revenue is almost all derived from operations in the PRC and the Group’s non-current assets are all located in the PRC.

### (v) Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group’s total revenue are as follows:

	Year ended 31 December	
	2020	2019
	RMB’000	RMB’000
Customer A (Note)	358,119	286,634

Note: Customer A represented a group of entities under common control of the Controlling Shareholders. No single entity other than Customer A contributes 10% or more of total revenue of the Group for the respective years.





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 6. OTHER INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Government grants (Note)	28,292	35,822
Bank interest income	4,674	1,193
Investment income from financial assets at FVTPL	5,325	3,730
Others	1,535	1,358
	<b>39,826</b>	42,103

Note: The amount represented subsidy income received from certain government authorities in the PRC for the purpose of giving immediate financial support to the Group with no future related costs.

### 7. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Losses (gains) on disposal/write-off of property, plant and equipment	13	(230)
Donations (Note)	18,454	–
Foreign exchange gain, net	(713)	–
	<b>17,754</b>	(230)

Note: During the year ended 31 December 2020, the Group made a donation of disinfectant and relevant anti-epidemic products with carrying value of RMB18,454,000 to the Red Cross Society of China.

### 8. SELLING AND DISTRIBUTION EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Staff costs	52,947	38,724
Promotion expenses	96,199	108,908
E-commerce channel promotion expenses	67,135	59,488
Advertising service expenses	47,457	38,535
Transportation and storage expenses	89,881	66,603
Marketing expenses	16,861	19,570
Others	1,550	2,400
	<b>372,030</b>	334,228



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 9. FINANCE COSTS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Interest expense on lease liabilities	399	299
Interest expense on bank borrowing	2,246	–
	2,645	299

## 10. INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
PRC Enterprise Income Tax ("EIT"):		
Current tax	68,707	55,687
Underprovision in prior year	–	1,370
	68,707	57,057
Deferred tax (Note 17)	(8,284)	(9,201)
	60,423	47,856



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 10. INCOME TAX EXPENSE (continued)

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act, Cap. 22 of the Cayman Islands and is exempted from the Cayman Islands income tax.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax for both years.

Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the PRC EIT rate of subsidiaries of the Group operating in the PRC was 25% for both years, except for those described below.

Anfu Cheerwin has been qualified as a New and Hi-Tech Enterprise and entitled to a preferential tax rate of 15% from 2019 to 2021 granted by the local tax authority.

Income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
Profit before tax	<b>293,332</b>	232,216
Tax at PRC EIT rate of 25%	<b>73,333</b>	58,054
Tax effect of income not taxable for tax purpose	–	(16)
Tax effect of super deduction for research and development expenses (Note)	<b>(1,762)</b>	(964)
Tax effect of expenses not deductible for tax purpose	<b>3,993</b>	5,160
Tax effect of deductible temporary differences not recognised	<b>5,559</b>	4,772
Utilisation of deductible temporary difference previously not recognised	<b>(3,071)</b>	(3,967)
Effect on preferential tax rate of a subsidiary	<b>(17,629)</b>	(16,553)
Underprovision in prior year	–	1,370
Income tax expense for the year	<b>60,423</b>	47,856

Note: The eligible expenditures represent research and development costs incurred in the PRC and charged to profit or loss, which is subject to an additional 75% tax deduction in the calculation of income tax expense for both years.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 11. PROFIT FOR THE YEAR

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Profit for the year has been arrived at after charging:		
Directors' emoluments (Note 12)	4,522	773
Other staff costs:		
Salaries and other allowances	115,815	82,057
Contributions to retirement benefits scheme	3,237	4,498
Total staff costs (Note i)	123,574	87,328
Depreciation of property, plant and equipment	11,685	9,997
Depreciation of right-of-use assets	3,234	2,231
Total depreciation	14,919	12,228
Less: capitalised in inventories	(3,750)	(4,098)
	11,169	8,130
Auditors' remuneration	375	153
Cost of inventories recognised as an expense (Note ii)	958,301	781,743

Notes:

- (i) Total staff costs have been charged to the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Staff costs included in cost of inventories and recognised as an expense	20,165	17,538
Selling and distribution expenses	52,947	38,724
Administrative expenses	50,462	31,066
	123,574	87,328

- (ii) Amount included allowance for inventories of approximately RMB 1,271,000 (2019: RMB1,799,000)

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### Directors' and chief executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

Directors' and chief executive's emoluments (continued)

Year ended 31 December 2020

	Fees RMB' 000	Salaries and allowances RMB' 000	Performance related bonus RMB' 000	Retirement benefits scheme contributions RMB' 000	Total RMB' 000
<b>Executive directors</b>					
Chen Danxia (Note ii)	–	2,285	–	11	2,296
Xie Rusong (Note iii)	–	1,360	–	4	1,364
Zhong Xuyi (Note iv)	–	785	65	12	862
<b>Non-executive director</b>					
Chen Zexing (Note v)	–	–	–	–	–
	–	4,430	65	27	4,522

Year ended 31 December 2019

	Fees RMB' 000	Salaries and allowances RMB' 000	Performance related bonus RMB' 000	Retirement benefits scheme contributions RMB' 000	Total RMB' 000
<b>Executive directors</b>					
Chen Danxia (Note ii)	–	–	–	–	–
Xie Rusong (Note iii)	–	–	–	–	–
Zhong Xuyi (Note iv)	–	713	45	15	773
	–	713	45	15	773

Notes:

- (i) The performance related bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.
- (ii) Ms. Chen Danxia was appointed as an executive director of the Company on 27 September 2018. She acts as chief executive of the Company with effective from 27 September 2018. The emoluments of Ms. Chen Danxia for her services provided to the Group were borne by an entity controlled by the Controlling Shareholders for the year ended 31 December 2019.
- (iii) Mr. Xie Rusong was appointed as executive directors of the Company on 25 August 2020. The emoluments of Mr. Xie Rusong for his services provided to the Group were borne by an entity controlled by the Controlling Shareholders for the year ended 31 December 2019.
- (iv) Mr. Zhong Xuyi was appointed as executive directors of the Company on 25 August 2020.
- (v) Mr. Chen Zexing was appointed as a non-executive director of the Company on 25 August 2020. No emoluments have been paid to Mr. Chen Zexing since his appointment.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 12. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

#### Directors' and chief executive's emoluments (continued)

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

Mr. Guo Sheng, Dr. De-Chao Michael Yu and Mr. Chan Wan Tsun Adrian Alan were appointed as independent non-executive directors of the Company on 19 February 2021.

None of the directors nor chief executive waived or agreed to waive any emoluments during the year (2019: nil).

#### Employees' emoluments

The five highest paid individuals of the Group included two directors (2019: one), whose emoluments are included in the disclosures above. The emoluments of the remaining three (2019: four) individuals who are neither a director nor chief executive of the Company, are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries and allowances	3,222	3,687
Retirement benefits scheme contributions	52	59
	<b>3,274</b>	3,746

The emoluments of the five highest paid individuals, other than directors, were within the following bands:

	Number of employees	
	2020	2019
Nil to HK\$1,000,000	–	2
HK\$1,000,001 to HK\$1,500,000	3	2
	<b>3</b>	4

No emoluments were paid by the Group to the directors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2019: nil).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 13. DIVIDENDS

During the year ended 31 December 2019, dividends of RMB117,696,000, RMB91,488,000 and RMB7,492,000 were declared to the shareholders of Anfu Cheerwin, Cheerwin Biotechnology and Panyu Cheerwin, respectively.

No dividend was paid or declared by the Company since its incorporation and up to the end of the reporting period.

Subsequent to the end of the reporting period, the Board has recommended the payment of a final dividend of RMB0.044 per ordinary share (equivalent to HK\$0.0524 per ordinary share) for the 31 December 2020. This proposed final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

## 14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to the owners of the Company)	223,781	185,164
	No. of Shares	No. of Shares
	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	995,219	990,000

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined based on the assumption that the Group Reorganisation as disclosed in Note 1 and share subdivision as described in Note 35 had been effective on 1 January 2019.

No diluted earnings per share is presented for both years as there was no potential ordinary share in issue.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 15. PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>COST</b>						
At 1 January 2019	63,802	36,069	1,728	5,061	23,894	130,554
Additions	–	4,395	533	1,905	23,600	30,433
Transfer	5,050	92	–	–	(5,142)	–
Disposals/write-off	–	(182)	(260)	(180)	–	(622)
At 31 December 2019	68,852	40,374	2,001	6,786	42,352	160,365
Additions	82	3,065	60	6,553	19,268	29,028
Transfer	28,978	28,257	–	579	(57,814)	–
Disposals/write-off	–	(195)	(163)	(110)	–	(468)
At 31 December 2020	<b>97,912</b>	<b>71,501</b>	<b>1,898</b>	<b>13,808</b>	<b>3,806</b>	<b>188,925</b>
<b>ACCUMULATED DEPRECIATION</b>						
At 1 January 2019	4,705	8,073	1,262	1,123	–	15,163
Provided for the year	3,264	4,616	224	1,893	–	9,997
Eliminated on disposals/ write-off	–	(161)	(145)	(12)	–	(318)
At 31 December 2019	7,969	12,528	1,341	3,004	–	24,842
Provided for the period	3,426	5,536	261	2,462	–	11,685
Eliminated on disposals/ write-off	–	(154)	(155)	(105)	–	(414)
At 31 December 2020	<b>11,395</b>	<b>17,910</b>	<b>1,447</b>	<b>5,361</b>	<b>–</b>	<b>36,113</b>
<b>CARRYING VALUES</b>						
At 31 December 2020	<b>86,517</b>	<b>53,591</b>	<b>451</b>	<b>8,447</b>	<b>3,806</b>	<b>152,812</b>
At 31 December 2019	60,883	27,846	660	3,782	42,352	135,523

The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight-line basis over the following years after taking into account the residual values:

### Useful lives

Buildings	20 years
Plant and machinery	5 to 10 years
Motor vehicles	5 years
Office equipment	3 to 5 years

The Group's buildings are located in the PRC.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 16. RIGHT-OF-USE ASSETS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
<b>Carrying amounts:</b>		
Leased properties	6,676	9,712
Leasehold lands	8,196	6,923
	<b>14,872</b>	16,635
<b>Depreciation recognised in profit or loss:</b>		
Leased properties	3,036	2,050
Leasehold lands	198	181
	<b>3,234</b>	2,231
<b>Year ended 31 December</b>		
	2020	2019
	RMB'000	RMB'000
Expense relating to short-term leases	3,954	6,417
Total cash outflow for leases	7,579	9,192
Additions to right-of-use assets	1,471	8,084

The Group leases various offices for its operation. Lease contracts are entered into for fixed term of 3 years to 5 years with fixed payments. In addition, lump sum payments were made upfront to acquire the land use rights in the PRC, where its manufacturing facilities are primarily located. The Group does not have the option to purchase the leasehold lands and leased properties for a nominal amount at the end of the relevant lease terms or any extension/termination options which are solely at the Group's discretion. The Group determines the lease period to be the non-cancellable period based on the contractual terms of the contract.

The Group regularly entered into short-term leases for warehouses. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 17. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

	<b>Accrued sales rebates</b>	<b>Unrealised profit on inventories</b>	<b>Others</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	13,671	5,577	580	19,828
Credited (charged) to profit or loss (Note 10)	12,200	(2,419)	(580)	9,201
At 31 December 2019	25,871	3,158	–	29,029
Credited to profit or loss (Note 10)	4,322	3,962	–	8,284
At 31 December 2020	<b>30,193</b>	<b>7,120</b>	<b>–</b>	<b>37,313</b>

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB279,252,000 as at 31 December 2020 (2019: RMB38,615,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at 31 December 2020, the Group has deductible temporary differences of approximately RMB38,550,000 (2019: RMB28,598,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 18. INVENTORIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Raw materials	51,128	57,578
Work-in-progress	38,111	48,260
Finished goods	270,555	267,428
	359,794	373,266

## 19. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	18,675	8,158
Less: Allowance for credit losses	(2,799)	(992)
	15,876	7,166
Prepayments for purchase of raw materials	13,272	12,742
Prepaid promotion service expenses	2,897	2,592
Other tax recoverables	39,809	39,999
Deferred issue costs	11,660	8,239
Receivables from payment intermediaries (Note)	603	8,035
Other receivables	18,050	12,335
	102,167	91,108

Note: Receivables from payment intermediaries represent the sales received by Alipay, Jingdong and other payment on behalf of the Group for the online platform sales. The balance will be transferred back to the bank accounts of the Group upon the Group's instruction.

### Trade receivables

As at 1 January 2019, trade receivables from contracts with customers amounted to approximately RMB5,994,000.

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit limit to each customer on an individual basis. Limits attributed to customers are reviewed regularly.

The Group generally requires advance payments from majority of its customers before delivery of goods. For certain customers, the Group allows credit terms of 5 to 60 days from the invoice date for trade receivables.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 19. TRADE AND OTHER RECEIVABLES (continued)

#### Trade receivables (continued)

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date which approximated the revenue recognition date at the end of the reporting period:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 30 days	8,678	3,920
31 – 60 days	4,585	15
61 – 90 days	2,613	45
91 – 120 days	–	54
121 – 180 days	–	108
181 – 365 days	–	643
Over 365 days	–	2,381
	<b>15,876</b>	<b>7,166</b>

As at 31 December 2020, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB7,198,000 (2019: RMB3,246,000) which are past due as at the reporting date. In particular, for trade receivable past due as at 31 December 2020, carrying amount of RMB6,576,000 is due from one single customer. The directors of the Company are of the opinion that there has not been a significant change in credit quality and the balances are still considered fully recoverable considering factors such as historical settlement patterns from and on-going business relationship with this customer. The entire balance has been fully settled subsequently. Out of the past due balances as at 31 December 2020, nil (2019: RMB3,132,000) have been past due over 90 days or more and are not considered as in default as there has not been a significant change in credit quality and amounts are still considered as recoverable based on historical experience. The Group does not hold any collateral over these balances.

As at 31 December 2020, the Group considered trade receivables with gross amount of approximately RMB1,943,000 became credit-impaired, as these debts were outstanding for more than one year and several attempts have been made by the Company to recover the debts but remained unsettled. Management of the Group determined to terminate the business relationship with these debtors.

Details of impairment assessment are set out in Note 30(b).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 20. AMOUNTS DUE FROM (TO) RELATED PARTIES/A SUBSIDIARY

#### Amounts due from related parties

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade nature (Notes a & b)		
– Guangzhou Liby Group Company Limited	14,455	–
– Guangdong Liby Washing Products Company Limited	20,819	31,488
– Shanghai Liby Shiye Company Limited	10,643	8,776
– Tianjin Liby Product Sales Company Limited	178	1,274
– Tianjin Liwang E-commerce Company Limited	–	1
– Chengdu Liby Shiye Company Limited	1,226	5,338
– Nanjing Liby Rihua Company Limited	272	4,675
	<b>47,593</b>	51,552

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade related prepayments (Note a)		
– Guangzhou Zhanze Property Management Company Limited	146	–
Non-trade nature (Notes a & c)		
– Guangzhou BKDR Commercial Factoring Company Limited	–	–
– Guangzhou Zhanze Property Management Company Limited (Note d)	–	1
	<b>47,739</b>	51,553

Notes:

- (a) These entities have been identified as related parties of the Group as they are under the common control by the Controlling Shareholders.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 20. AMOUNTS DUE FROM (TO) RELATED PARTIES/A SUBSIDIARY (continued)

#### Amounts due from related parties (continued)

Notes: (continued)

- (b) Trade related balances with related parties arose from sales of goods. In general, 45 days credit period is allowed. The amounts were unsecured and interest-free.

The following is the aged analysis of trade related balances with related parties at the end of the reporting period presented based on the invoice date.

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Within 45 days	<b>24,993</b>	21,046
46 – 90 days	<b>10,673</b>	17,394
91 – 135 days	<b>10,047</b>	7,532
136 – 180 days	<b>1,879</b>	419
Over 180 days	<b>1</b>	5,161
	<b>47,593</b>	51,552

As at 31 December 2020, included in the Group's trade related balances with related parties approximately RMB22,600,000 (2019: RMB30,506,000) were past due as at the reporting date. Out of the past due balances as at 31 December 2020, approximately RMB1,880,000 (2019: RMB5,580,000) had been past due 90 days or more and was not considered as in default by considering the historical payment arrangement and forward-looking information of these related parties. The Group did not hold any collateral over these balances.

	<b>Maximum amount during the</b>	
	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Non-trade nature		
– Guangzhou BKDR Commercial Factoring Company Limited	–	59,474
– Guangzhou Zhanze Property Management Company Limited	<b>1</b>	1

- (d) These balances are interest-free, non-trade related, unsecured and repayable on demand.

Details of impairment assessment are set out in Note 30(b).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 20. AMOUNTS DUE FROM (TO) RELATED PARTIES/A SUBSIDIARY (continued)

### Amounts due to related parties

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Trade nature (Note a)		
– Guangzhou Liby Group Company Limited	48,641	56,932
– Xinxiang Liby Shiye Company Limited	13,407	18,826
– Guangzhou Liby (Panyu) Company Limited	10,451	10,937
– Maanshan Liby Rihua Company Limited	14,807	14,922
– Siping Liby Rihua Company Limited	7,714	2,027
– Tianjin Liby Rihua Company Limited	75	3,110
– Liby Rihua Company Limited	2,657	3,859
– Sichuan Liby Shiye Company Limited	1,694	–
– Shanghai New COGI Cosmetic Co., Ltd.	858	259
	<b>100,304</b>	110,872
Non-trade nature (Note b)		
– Guangzhou Liby Group Company Limited	–	25,048
– Faguo Kangliang Cosmetics Company Limited	9,918	60,130
	<b>9,918</b>	85,178
	<b>110,222</b>	196,050

#### Notes:

- (a) These entities have been identified as related parties of the Group as they are under the common control by the Controlling Shareholders.

Trade related balances with related parties arose from purchase of goods and provision of services. In general, 30 to 60 days credit period is allowed. These balances were unsecured and interest-free.

The following is an aged analysis of the Group's trade related balances with related parties at the end of the reporting period presented based on invoice date:



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 20. AMOUNTS DUE FROM (TO) RELATED PARTIES/A SUBSIDIARY (continued)

#### Amounts due to related parties (continued)

Notes: (continued)

(a) (continued)

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 30 days	48,250	61,118
31 – 60 days	27,458	14,295
61 – 90 days	20,955	11,003
91 – 180 days	2,179	19,393
181 – 365 days	1,462	–
Over 365 days	–	5,063
	<b>100,304</b>	<b>110,872</b>

(b) The balance is interest-free, non-trade related, unsecured and repayable on demand.

### 21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits are deposits pledged to a bank for providing banking service of an online ordering platform for distributors. The pledged bank deposits carry interest rate of 0.30% per annum as at 31 December 2019. Such pledged bank deposits have been released during the year ended 31 December 2020.

Bank balances and cash consists of balance with banks and cash on hand. Bank balances carry interest at prevailing market rate of 0.30% (2019: 0.30%) per annum as at 31 December 2020.





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 22. TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables	221,238	172,146
Accrued sales rebates (Note)	96,362	83,910
Other accrued expenses	28,483	20,497
Accrued staff payroll and welfare	29,758	12,623
Construction costs payables	8,097	11,369
Other tax payables	6,560	1,881
Other payables	3,305	11,368
Accrued issued costs and listing expenses	17,577	24,801
	<b>411,380</b>	<b>338,595</b>

Note: The accrued sales rebates will be settled in cash or through offsetting future sales orders, at the discretion of the Group's customers.

#### Trade payables

The credit period of trade payables is normally within 20 to 60 days from the invoice date.

The following is an aged analysis of trade payables, presented based on the invoice date at the end of the reporting period:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 30 days	126,308	108,167
31 – 60 days	85,494	56,666
61 – 90 days	6,754	7,244
Over 90 days	2,682	69
	<b>221,238</b>	<b>172,146</b>

### 23. CONTRACT LIABILITIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Receipts in advances from customers		
– finished goods	486,752	455,905



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 23. CONTRACT LIABILITIES (continued)

The Group generally requires advance payments from majority of its customers before delivery of goods. This will give rise to a contract liability at the beginning of a contract, until the revenue recognised on the relevant contract exceeds the amount received.

As at 1 January 2019, contract liabilities amounted to approximately RMB154,057,000.

The following table shows how much of the revenue recognised for the years ended 31 December 2020 and 2019 relates to the contract liabilities at the beginning of the year:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue recognised during the year	455,905	154,057

### 24. AMOUNTS DUE FROM (TO) SHAREHOLDERS

The amounts are non-trade in nature, interest-free, unsecured and repayable on demand.

### 25. LEASE LIABILITIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Lease liabilities payable:		
Within one year	1,783	3,225
Within a period of more than one year but not more than two years	5,096	6,880
	6,879	10,105
Less: Amount due for settlement within 12 months shown under current liabilities	(1,783)	(3,225)
Amount due for settlement after 12 months shown under non-current liabilities	5,096	6,880

When recognising the lease liabilities for leases, the Group has applied incremental borrowing rates of the relevant group entities at the leases commencement/modification dates. The weighted average incremental borrowing rates applied by the relevant group entities are 4.75% per annum.

### 26. BANK BORROWING

As at 31 December 2020, the Group's bank borrowing of RMB300,000,000 is denominated in RMB and carries interest at a fixed rate of 2.05% per annum. The bank borrowing as at 31 December 2020 is unsecured and repayable within one year and shown under current liabilities.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 27. SHARE CAPITAL/PAID IN CAPITAL

For the purpose of presenting the share capital/paid in capital of the Group prior to the completion of the Group Reorganization as disclosed in Note 1, the balance at 31 December 2019 represented the combined share capital of the Company of RMB1,000 and Guangzhou Cheerwin of RMB28,500,000 attributable to the Controlling Shareholders.

The share capital as at 31 December 2020 represented the share capital of the Company of approximately RMB1,000.

	Number of shares	Share capital USD	Presented as RMB'000
Ordinary shares of USD1 each			
<b>Authorised</b>			
At 11 April 2018 (date of incorporation),			
31 December 2018 and 2019 and			
30 September 2020	50,000	50,000	315
<b>Issued and fully paid</b>			
At 11 April 2018 (date of incorporation),			
31 December 2018 and 2019	100	100	
Issue of Shares (Note 1 (xviii))	100	100	
At 31 December 2020	<b>200</b>	<b>200</b>	<b>1</b>

On 19 February 2021, the authorised share capital of the Company of par value USD1.00 each was sub-divided into 5,000,000 shares of par value USD0.0000002 each. On 10 March 2021, the Company was successfully listed on the Main Board of the Stock Exchange. Details are set out in Note 35.

## 28. RETIREMENT BENEFIT PLAN

The eligible employees of the Company's subsidiaries in PRC are members of pension schemes operated by local government of the PRC. The subsidiaries in the PRC are required to contribute a certain percentage of the relevant cost of payroll of these employees to the pension schemes to fund the benefits.

No forfeited contribution is available to reduce the contribution payable in future years.

The contributions to the retirement benefits schemes for employees of the Group and directors of the Company during the year are disclosed in Notes 11 and 12, respectively.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 29. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists net debts, which include lease liabilities as disclosed in Note 25 and bank borrowing as disclosed in Note 26, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The management of the Group reviews the capital structure on a regular basis. As a part of this review, the management considers the cost of capital and the risks associated with each class of items in the context of capital structure, and takes appropriate actions to adjust the Group's capital structure. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends and continuity of funding of cash flows from operating activities.

## 30. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
<b>Financial assets</b>		
Financial assets at amortised cos	<b>966,888</b>	593,151
<b>Financial liabilities</b>		
Amortised cost	<b>660,439</b>	623,117

### (b) Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, amounts due from related parties, amounts due from shareholders, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to related parties, amounts due to shareholders, bank borrowing and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 30. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

#### Market risk

##### *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate amount bank borrowing (see Note 26 for details) and lease liabilities (see Note 25 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances (see Note 21 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on pledged bank deposits and bank balances. The Group currently does not have an interest rate hedging policy. As management of the Group considered such exposure to cash flow interest rate risk is minimal, accordingly, no sensitivity analysis is presented.

##### *Currency risk*

The Group is not exposed to significant foreign exchange risk as it transacts mainly in RMB.

#### Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, amounts due from related parties, amounts due from shareholders, pledged bank deposits and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

##### *Trade receivables and trade related balances with related parties arising from contracts with customers*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual significant trade debt at the end of each reporting period to ensure that adequate impairment loss is recognised for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 30. FINANCIAL INSTRUMENTS (continued)

#### (b) Financial risk management objectives and policies (continued)

##### *Credit risk and impairment assessment (continued)*

*Trade receivables and trade related balances with related parties arising from contracts with customers (continued)*

In addition, the Group performs impairment assessment under ECL model based on individual assessment and provision matrix. Except for credit-impaired trade receivables, trade receivables with significant balances and trade related balances with related parties, which are assessed for impairment individually, the remaining trade receivables and trade related balances with related parties are grouped under a provision matrix grouped by internal credit rating based on shared credit risk characteristics by reference to past due exposure for the customers. As at 31 December 2020, credit-impaired trade receivables with gross amount of approximately RMB1,943,000 (2019: nil) were assessed individually. As at 31 December 2020, trade receivables with significant balances of approximately RMB11,741,000 (2019: nil) were assessed individually. During the year ended 31 December 2020, the Group reversed credit loss allowance of approximately RMB136,000 (2019: RMB265,000) for trade receivables based on provision matrix. Allowance for credit losses for trade related balances with related parties as at 31 December 2020 and 2019 was not material. Details of the quantitative disclosures are set out below in this note.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% of the total trade receivables and trade related balances with related parties as at 31 December 2020 and 2019.

##### *Other receivables and non-trade related balances with related parties*

The Group assessed the loss allowance for other receivables and non-trade related balances with related parties on 12-month ECL basis as the Group has considered that credit risks on these financial assets have not increased significantly since initial recognition. In determining the ECL, the Group has taken into account the historical default experience and forward looking information as appropriate. The Group has considered the consistently low historical default rate in connection with payments and the Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. In addition, the Controlling Shareholders agreed to provide adequate financial support to the related parties to meet in full their obligations as necessary. For the years ended 31 December 2020 and 2019, management of the Group assessed the ECL for other receivables and non-trade balances with related parties were insignificant and thus no loss allowance was recognised.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 30. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

#### Credit risk and impairment assessment (continued)

##### *Pledged deposits and bank balances*

The credit risks on pledged deposits and bank balances are limited because the counterparties are authorised banks in the PRC with high credit ratings assigned by international credit-rating.

Other than the concentration of credit risk on liquid funds which are placed with several banks, the Group does not have any other significant concentration of credit risk.

The Group assessed 12m ECL for pledged bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on pledged bank deposits and bank balances is considered to be insignificant.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/trade related balances with related parties	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL - not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due date but usually settle in full	Lifetime ECL - not credit-impaired	12m ECL
Doubtful	There has been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	Lifetime ECL - not credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off	Amount is written off



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 30. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

#### Credit risk and impairment assessment (continued)

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
				At 31 December 2020 RMB' 000	At 31 December 2019 RMB' 000
<b>Financial assets at amortised costs</b>					
Trade receivables	19	(Note 1)	Lifetime ECL - not credit impaired (provision matrix)	4,991	8,158
		Low risk	Lifetime ECL - not credit impaired	11,741	–
		Loss	Credit-impaired	1,943	–
				<b>18,675</b>	8,158
Other receivables and receivables from payment intermediaries	19	(Note 2)	12m ECL	18,653	20,370
Amounts due from related parties	20	(Note 1)	Lifetime ECL - not credit impaired (provision matrix)	47,593	51,552
– Trade related					
– Non-trade related		(Note 2)	12m ECL	–	1
Amounts due from shareholders	24	(Note 2)	12m ECL	–	1
Pledged bank deposits	21	(Note 2)	12m ECL	–	3,026
Bank balances	21	(Note 2)	12m ECL	884,766	511,035
				<b>969,687</b>	594,143





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 30. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

#### Credit risk and impairment assessment (continued)

Notes:

- For not credit-impaired trade receivables and trade related balances with related parties, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL by using a provision matrix, grouped by internal credit rating and past due status of respective receivable. In addition, credit-impaired trade receivables, trade receivables with significant balances and trade related balances with related parties are assessed for ECL individually. The loss allowance amounts of the credit-impaired trade receivables and trade related balances with related parties are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future losses.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2020 and 2019 within lifetime ECL (not credit-impaired).

#### Internal credit rating

	As at 31 December			
	2020		2019	
	Average loss rate	Trade receivables RMB'000	Average loss rate	Trade receivables RMB'000
Low risk	8%	4,991	5%	8,158

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The management of the Group is of the opinion that there is no material change in the observed default rates of its customers throughout the reporting period and after considering the forward-looking information, same average loss rate was adopted throughout the reporting period. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2020, the Group reversed credit loss allowance of approximately RMB136,000 (2019: RMB265,000) for trade receivables based on provision matrix.

The following tables show the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 30. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

#### Credit risk and impairment assessment (continued)

Notes: (continued)

1. (continued)

#### Internal credit rating (continued)

	Lifetime ECL (credit-impaired) RMB'000	Lifetime ECL - provision matrix (not credit-impaired) RMB'000	Total RMB'000
As at 1 January 2019	–	1,257	1,257
– impairment losses reversed	–	(265)	(265)
As at 31 December 2019	–	992	992
– impairment losses recognised (reversed)	1,943	(136)	1,807
As at 31 December 2020	<b>1,943</b>	<b>856</b>	<b>2,799</b>

The Group writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off and is subject to enforcement activities.

Credit losses allowance for trade related balances with related parties as at 31 December 2020 and 2019 was not material, considering the consistently low historical default rate in connection with payments. In addition, the Controlling Shareholders agreed to provide financial support to the related parties to meet in full their obligation as necessary, the probability of default and loss given default are assessed as low.

- For the purposes of internal credit risk management, the Group has applied the general approach in IFRS 9 to measure the loss allowance at 12m ECL as there is no significant increase in credit risk since initial recognition. The Group determines the expected credit losses for other receivables and non-trade related balances with related parties, pledged bank deposits and bank balances by assessment of probability of default. For the non-trade related balances with related parties, the Group has taken into account the financial support provided by the Controlling Shareholders and considered the probability of default and loss given default are low. During the years ended 31 December 2020 and 2019, in view of the nature of the balance and historical default rate and forward looking information, the Group considers the provision of impairment allowance for these balances are insignificant.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 30. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

#### Liquidity risk

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at variable rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate %	Repayable on demand or within 3 months RMB' 000	3 months to 1 year RMB' 000	1 year to 5 year RMB' 000	>5 years RMB' 000	Total undiscounted cash flows RMB' 000	Carrying amount RMB' 000
<b>At 31 December 2020</b>							
Trade and other payables	-	250,217	-	-	-	250,217	250,217
Amounts due to related parties	-	110,222	-	-	-	110,222	110,222
Bank borrowing	2.05	101,196	200,276	-	-	301,472	300,000
Lease liabilities	4.75	516	1,549	5,427	-	7,492	6,879
		462,151	201,825	5,427	-	669,403	667,318
<b>At 31 December 2019</b>							
Trade and other payables	-	219,684	-	-	-	219,684	219,684
Amounts due to related parties	-	196,050	-	-	-	196,050	196,050
Amounts due to shareholders	-	207,383	-	-	-	207,383	207,383
Lease liabilities	4.75	940	2,684	7,493	-	11,117	10,105
		624,057	2,684	7,493	-	634,234	633,222

*Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis*

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing model based on discounted cash flow analysis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities	Amounts due to shareholders	Amounts due to related parties	Accrued issue cost	Interest payable	Bank borrowing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	4,410	77,549	147,184	1,975	-	-	231,118
Financing cash flows	(2,688)	-	(220,950)	(207)	-	-	(223,845)
Finance costs	299	-	-	-	-	-	299
Issue cost accruals	-	-	-	4,432	-	-	4,432
New leases entered	8,084	-	-	-	-	-	8,084
Dividend declared	-	91,536	125,140	-	-	-	216,676
Consideration payable arising from Group Reorganisation (Note 1)	-	38,298	33,804	-	-	-	72,102
At 31 December 2019	10,105	207,383	85,178	6,200	-	-	308,866
Financing cash flows	(3,625)	(236,753)	(75,260)	(5,227)	(2,246)	300,000	(23,111)
Finance costs	399	-	-	-	2,246	-	2,645
Issue cost accruals	-	-	-	3,421	-	-	3,421
Consideration payable arising from Group Reorganisation (Note 1)	-	29,370	-	-	-	-	29,370
At 31 December 2020	<b>6,879</b>	<b>-</b>	<b>9,918</b>	<b>4,394</b>	<b>-</b>	<b>300,000</b>	<b>321,191</b>

### 32. CAPITAL COMMITMENTS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<b>14,527</b>	40,672



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 33. RELATED PARTY TRANSACTIONS

- (a) Details of the balances with related parties at the end of the reporting period are disclosed in the consolidated statement of financial position and Notes 20 and 24 to the consolidated financial statements. Apart from disclosure elsewhere in the consolidated financial statements, the Group entered into the following transactions with related parties during the year.

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Sales to related parties (Note)		
– Guangzhou Liby Group Company Limited	153,891	122,815
– Guangdong Liby Washing Products Company Limited	120,211	99,496
– Shanghai Liby Shiye Company Limited	55,516	42,198
– Tianjin Liby Product Sales Company Limited	1,565	2,138
– Guilin Liby Rihua Company Limited	–	187
– Tianjin Liwang E-commerce Company Limited	205	418
– Guangzhou Liby (Panyu) Company Limited	5,440	6,796
– Xinxiang Liby Shiye Company Limited	515	662
– Tianjin Liby Rihua Company Limited	4	136
– Maanshan Liby Rihua Company Limited	5,108	1,657
– Chengdu Liby Shiye Company Limited	8,557	6,030
– Nanjing Liby Rihua Company Limited	4,868	4,018
– Shanghai New COGI Cosmetic Co., Ltd.	1,967	45
– Liby Rihua Company Limited	272	38
	<b>358,119</b>	<b>286,634</b>

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Purchase from related parties (Note)		
– Guangzhou Liby Group Company Limited	5,214	4,914
– Xinxiang Liby Shiye Company Limited	53,492	49,674
– Guangzhou Liby (Panyu) Company Limited	45,427	38,244
– Maanshan Liby Rihua Company Limited	62,442	42,503
– Siping Liby Rihua Company Limited	20,683	12,071
– Tianjin Liby Rihua Company Limited	5,379	8,281
– Liby Rihua Company Limited	33,044	48,215
– Shanghai New COGI Cosmetic Co., Ltd.	1,017	3,037
– Sichuan Liby Shiye Company Limited	5,869	–
	<b>232,567</b>	<b>206,939</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 33. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Advertising service expense (Note)		
– Guangzhou Megahive Media Company Limited	10,249	34,215
– Shanghai New COGI Cosmetic Co., Ltd.	704	–
	<b>10,953</b>	34,215
Sales support service expense (Note)		
– Guangzhou Liby Group Company Limited	21,600	35,233
Warehousing service expense (Note)		
– Guangzhou Liby Group Company Limited	9,000	8,189
IT service expense (Note)		
– Guangzhou Liby Group Company Limited	2,300	2,314
Expenses relating to short-term leases (Note)		
– Shanghai New COGI Cosmetic Co., Ltd.	785	471
– Guangzhou Liby (Panyu) Company Limited	–	160
– Xinxiang Liby Shiye Company Limited	685	–
	<b>1,470</b>	631
Payment of lease liabilities (Note)		
– Guangzhou Liby Group Company Limited	1,341	1,439
– Guangzhou Liby (Panyu) Company Limited	2,025	675
	<b>3,366</b>	2,114
Property management expense (Note)		
– Guangzhou Zhanze Property Management Company Limited	624	–

Note: These entities have been identified as related parties of the Group as they are under the common control by the Controlling Shareholders.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 33. RELATED PARTY TRANSACTIONS (continued)

#### (a) (continued)

Guangzhou BKDR Commercial Factoring Company Limited and Shanghai BKDR Commercial Factoring Company Limited (collectively as “Baokai Daorong”), are entities controlled by the Controlling Shareholders, which are primarily engaged in the business of providing trade financing services. During the years ended 31 December 2020 and 2019, the Group entered into tripartite agreements with Baokai Daorong and the customers of the Group, in which Baokai Daorong granted cash advances to the customers of the Group based on the purchase orders made to the Group and the customers of the Group repay principals and interests to Baokai Daorong on the cash advances financed by Baokai Daorong. For the year ended 31 December 2020, Baokai Daorong provided financing to certain customers of the Group amounted to approximately RMB16,012,000 (2019: RMB378,161,000) under this arrangement.

During the year ended 31 December 2019, an entity controlled by the Controlling Shareholders transferred the trademark in relation to the personal care product to the Group at nil consideration.

#### (b) Compensation of key management personnel

The remuneration of directors and other members of key management is set out in Note 12.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 34. PARTICULARS OF SUBSIDIARIES

As at 31 December 2020 and 2019, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of subsidiary	Place and date of establishment/ incorporations and place of operation	Registered capital/issued and fully paid-up share capital	Equity interest attributable to the Company at 31 December		Principal activities
			2020	2019	
<i>Directly held:</i>					
Cheerwin Group BVI	BVI 27 March 2018	USD100	100%	100%	Investment holding
<i>Indirectly held:</i>					
Cheerwin Group HK	HK 13 April 2018	HK\$100	100%	100%	Investment holding
Cheerwin Global HK	HK 13 April 2018	HK\$100	100%	100%	Sales of daily cleaning products
Guangzhou Cheerwin (wholly foreign-owned enterprise)	The PRC 19 October 2018	RMB30,000,000	100%	95%	Investment holding
Cheerwin Biotechnology (wholly-owned domestic enterprise)	The PRC 17 December 2010	RMB5,000,000	100%	100%	Sales of insecticide and daily cleaning products
Panyu Cheerwin (wholly-owned domestic enterprise)	The PRC 26 July 2011	RMB30,000,000	100%	100%	Manufacture and sales of insecticide products
Anfu Cheerwin (wholly-owned domestic enterprise)	The PRC 11 July 2006	RMB30,000,000	100%	100%	Manufacture and sales of insecticide products
Guangzhou Tongli (wholly-owned domestic enterprise)	The PRC 3 December 1992	HKD1,400,000	100%	100%	Sales of plastic daily cleaning products
Guangzhou Yuncheng (wholly-owned domestic enterprise)	The PRC 6 February 2018	RMB5,000,000	100%	100%	Sales of daily pet necessity
Leda Automobile (wholly-owned domestic enterprise)	The PRC 5 February 2018	RMB5,000,000	100%	100%	Sales of auto accessories
Shanghai Runzhisu (wholly-owned domestic enterprise)	The PRC 19 November 2018	RMB1,000,000	100%	100%	Sales of personal care products
Guangzhou Yuntuo (wholly-owned domestic enterprise)	The PRC 14 November 2018	RMB1,000,000	100%	100%	Sales of daily cleaning product
Shanghai Cheerwin (wholly-owned domestic enterprise)	The PRC 29 July 2019	RMB5,000,000	100%	100%	Sales of personal care product
Bestwin Household Products Company Limited (Note a)	Vietnam 24 June 2020	USD510,000	51%	–	Manufacture and sales of insecticide products

Note:

(a) This subsidiary was incorporated in Vietnam on 24 June 2020.

None of the subsidiaries had issued any debt securities at the end of the year.





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 35. EVENTS AFTER THE REPORTING PERIOD

On 19 February 2021, the authorised share capital of the Company of par value USD1.00 each was sub-divided into 5,000,000 shares of par value USD0.0000002 each. Upon the subdivision, the authorized share capital of the Company was changed from USD50,000 divided into 50,000 shares of a par value of USD1.00 each to USD50,000 divided into 250,000,000,000 shares of a par value of USD0.0000002 each and the issued share capital of the Company became USD200 divided into 1,000,000,000 shares of a par value of USD0.0000002 each.

On 10 March 2021, the Company was successfully listed on the Main Board of the Stock Exchange following the completion of issuance of 333,333,500 new shares of USD0.0000002 each issued at a price of HK\$9.2 per share.

## 36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
<b>NON-CURRENT ASSET</b>		
Investment in a subsidiary	1	1
<b>CURRENT ASSETS</b>		
Other receivables	11,660	8,239
Amounts due from shareholders	–	1
Amount due from a subsidiary	27,749	–
Bank balances and cash	19,810	–
	<b>59,219</b>	<b>8,240</b>
<b>CURRENT LIABILITIES</b>		
Other payables	17,696	24,801
Amounts due to shareholders	–	1
Amount due to a subsidiary	48,224	8,159
	<b>65,920</b>	<b>32,961</b>
<b>NET CURRENT LIABILITIES</b>	<b>(6,701)</b>	<b>(24,721)</b>
<b>NET LIABILITIES</b>	<b>(6,700)</b>	<b>(24,720)</b>
<b>CAPITAL AND RESERVES</b>		
Share capital	1	1
Reserves	(6,701)	(24,721)
<b>TOTAL DEFICIT</b>	<b>(6,700)</b>	<b>(24,720)</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves is as follows:

	Share premium RMB'000	Capital reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2019	–	–	(11,421)	(11,421)
Loss and other comprehensive expense for the year	–	–	(13,300)	(13,300)
At 31 December 2019	–	–	(24,721)	(24,721)
Loss and other comprehensive expense for the year	–	–	(13,246)	(13,246)
Issue of shares of the Company (Note 1 (xviii))	1,550	–	–	1,550
Capital injection from the Controlling shareholders	–	29,716	–	29,716
At 31 December 2020	<b>1,550</b>	<b>29,716</b>	<b>(37,967)</b>	<b>(6,701)</b>