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CHEERWIN

Cheerwin Group Limited

朝雲集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6601)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Year-on-year
	2020	2019	change
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	1,702,154	1,383,402	23.0%
Gross profit	742,582	599,860	23.8%
Profit before tax	293,332	232,216	26.3%
Profit for the year	232,909	184,360	26.3%
Adjusted profit for the year [#]	261,623	197,660	32.4%
Earnings per share			
– Basic (cents)	22.49	18.70	20.3%

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

OPERATING HIGHLIGHTS

- Continuous product mix improvement: Comprehensive product mix achieved growth. Revenue from pet care products increased by more than ten times over last year. During the same period, revenue from household care products and personal care products recorded an increase of 20.0% and 51.7%, respectively.
- Comprehensive online and offline coverage with rapid growth: Revenue generated through online channels and offline channels recorded an increase of 92.8% and 14.4% from the year ended 31 December 2019 to the same period in 2020, respectively. Revenue from self-operated online stores increased significantly by 121.5%, which would benefit gross profit's improvement.
- Distributors' inventory maintained optimal level and new products with higher gross profit margin developed significantly.

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.

The board (the “**Board**”) of directors (the “**Directors**”) of Cheerwin Group Limited (the “**Company**”) is pleased to announce the audited consolidated annual results (“**Annual Results**”) of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020 together with the comparative figures for the year ended 31 December 2019 as set out below. The Annual Results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	NOTES	Year ended 31 December	
		2020	2019
		RMB'000	RMB'000
Revenue	3	1,702,154	1,383,402
Cost of sales		<u>(959,572)</u>	<u>(783,542)</u>
Gross profit		742,582	599,860
Other income	4	39,826	42,103
Other gains and losses	5	(17,754)	230
Impairment losses in respect of trade receivables, net of reversal		(1,807)	265
Selling and distribution expenses		(372,030)	(334,228)
Administrative expenses		(84,580)	(62,415)
Finance costs	6	(2,645)	(299)
Listing expenses		<u>(10,260)</u>	<u>(13,300)</u>
Profit before tax		293,332	232,216
Income tax expense	7	<u>(60,423)</u>	<u>(47,856)</u>
Profit for the year	8	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		<u>11</u>	<u>—</u>
Total comprehensive income for the year		<u>232,920</u>	<u>184,360</u>
Profit (loss) for the year attributable to:			
– Owners of the Company		223,781	185,164
– Non-controlling interests		<u>9,128</u>	<u>(804)</u>
		<u>232,909</u>	<u>184,360</u>
Total comprehensive income (expense) for the year attributable to:			
– Owners of the Company		223,787	185,164
– Non-controlling interests		<u>9,133</u>	<u>(804)</u>
		<u>232,920</u>	<u>184,360</u>
Earnings per share			
– Basic (cents)	10	<u>22.49</u>	<u>18.70</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>NOTES</i>	As at 31 December 2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		152,812	135,523
Right-of-use assets		14,872	16,635
Deposits paid for acquisition of property, plant and equipment		5,160	7,033
Deferred tax assets		37,313	29,029
Pledged bank deposits		–	3,026
		210,157	191,246
CURRENT ASSETS			
Inventories		359,794	373,266
Trade and other receivables	<i>11</i>	102,167	91,108
Tax recoverable		3,802	7,669
Amounts due from shareholders		–	1
Amounts due from related parties		47,739	51,553
Bank balances and cash		884,766	511,035
		1,398,268	1,034,632
CURRENT LIABILITIES			
Trade and other payables	<i>12</i>	411,380	338,595
Contract liabilities		486,752	455,905
Amounts due to related parties		110,222	196,050
Amounts due to shareholders		–	207,383
Lease liabilities		1,783	3,225
Income tax payables		42,658	3,910
Bank borrowing		300,000	–
		1,352,795	1,205,068
NET CURRENT ASSETS (LIABILITIES)		45,473	(170,436)
TOTAL ASSETS LESS CURRENT LIABILITIES		255,630	20,810

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITY		
Lease liabilities	<u>5,096</u>	<u>6,880</u>
NET ASSETS	<u>250,534</u>	<u>13,930</u>
CAPITAL AND RESERVES		
Share capital/paid-in capital	1	28,501
Reserves	<u>247,680</u>	<u>(15,267)</u>
Equity attributable to owners of the Company	247,681	13,234
Non-controlling interests	<u>2,853</u>	<u>696</u>
TOTAL EQUITY	<u>250,534</u>	<u>13,930</u>

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 People’s Republic of China (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;
- (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.

- (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.*

- (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, 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.

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 have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). 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 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.

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

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

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. 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
	<i>RMB'000</i>	<i>RMB'000</i>
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 (<i>Note</i>)	11,161	9,920
Total	<u>1,702,154</u>	<u>1,383,402</u>

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

(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. 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 (<i>Note</i>)	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.

4. OTHER INCOME

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

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.

5. 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 (<i>Note</i>)	18,454	—
Foreign exchange gain, net	(713)	—
	<u>17,754</u>	<u>(230)</u>

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.

6. FINANCE COSTS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Interest expense in lease liabilities	399	299
Interest expense on bank borrowing	2,246	—
	<u>2,645</u>	<u>299</u>

7. 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
	<u>68,707</u>	<u>57,057</u>
Deferred tax	(8,284)	(9,201)
	<u>60,423</u>	<u>47,856</u>

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.

8. 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	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	<u>123,574</u>	<u>87,328</u>
Depreciation of property, plant and equipment	11,685	9,997
Depreciation of right-of-use assets	3,234	2,231
Total depreciation	<u>14,919</u>	<u>12,228</u>
Less: capitalised in inventories	<u>(3,750)</u>	<u>(4,098)</u>
	<u>11,169</u>	<u>8,130</u>
Auditor's remuneration	375	153
Cost of inventories recognised as an expense	<u>958,301</u>	<u>781,743</u>

9. DIVIDEND

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 year ended 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.

10. 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
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to the owners of the Company)	<u>223,781</u>	<u>185,164</u>
	No. of Shares	No. of Shares
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>995,219</u>	<u>990,000</u>

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 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.

11. 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)
	<u>15,876</u>	<u>7,166</u>
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
	<u>102,167</u>	<u>91,108</u>

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

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.

The following is an aged analysis of trade receivables, net of allowance for doubtful debts/credit losses, presented based on the invoice date which approximated the revenue recognition date at the end of each 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
	<u>15,876</u>	<u>7,166</u>

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	221,238	172,146
Accrued sales rebates (<i>Note</i>)	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
	<u>411,380</u>	<u>338,595</u>

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 each reporting period:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>221,238</u>	<u>172,146</u>

BUSINESS OVERVIEW AND OUTLOOK

Business Overview

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 multi-brand, 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.

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.

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	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
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
Sub-total	1,560,527	91.6	1,300,244	94.0
Personal Care	108,427	6.4	71,495	5.2
Pet Care	22,039	1.3	1,743	0.1
Others ⁽¹⁾	11,161	0.7	9,920	0.7
Total	1,702,154	100.0	1,383,402	100.0

Note:

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

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.

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 ⁽¹⁾	358,119	21.0	286,634	20.7
Total	1,702,154	100.0	1,383,402	100.0

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.

Revenue from Liby 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
Sub-total	692,272	44.4	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 ⁽¹⁾	1,600	14.3	3,002	30.3
Total	742,582	43.6	599,860	43.4

Note:

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

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 expand 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 ⁽¹⁾	148,770	41.5	104,036	36.3
Total	742,582	43.6	599,860	43.4

Note:

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

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.

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.

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
	<i>RMB'000</i>			
Profit for the year	170,175	177,035	184,360	232,909
Adjustments for:				
One-time charity donations	—	—	—	18,454
Listing expenses	—	11,421	13,300	10,260
Adjusted net profit	<u>170,175</u>	<u>188,456</u>	<u>197,660</u>	<u>261,623</u>

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.

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.

OTHER INFORMATION

USE OF NET PROCEEDS FROM GLOBAL OFFERING

The Shares were listed on the Main Board of the Stock Exchange on 10 March 2021 (the “**Listing Date**”). 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. 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 this announcement.

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 of the Company (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.

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.

CORPORATE GOVERNANCE

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. The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Company was listed on the Stock Exchange on 10 March 2021 and the CG Code as set out in Appendix 14 to the Listing Rules was not applicable to the Company before the Listing Date. Since the Listing Date and up to the date of this announcement, the Company has complied with all applicable code provisions under the CG Code and adopted most of the best practices set out therein except for the following provision.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (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 this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

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

PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors, the Company has maintained sufficient public float as required by the Listing Rules since the Listing Date and up to the date of this announcement. The Company maintained the minimum level of public float of 25% of its total issued share capital.

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 this announcement, save as disclosed above, there was no important event affecting the Group which occurred after the end of 31 December 2020.

AUDIT COMMITTEE

The Board has established the Audit Committee, which comprises three independent non-executive Directors, namely, Mr. Chan Wan Tsun Adrian Alan (Chairman), Dr. De-Chao Michael Yu and Mr. Guo Sheng. The Audit Committee has also adopted written terms of reference which clearly set out its duties and obligations (the terms of reference are available on the websites of the Company and the Stock Exchange).

The Audit Committee has, together with the senior management of the Company, reviewed the accounting principles and practices adopted by the Group as well as the audited consolidated financial statements of the Group for the year ended 31 December 2020.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.cheerwin.com. The annual report of the Company for the year ended 31 December 2020 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in accordance with the requirements under the Listing Rules.

By Order of the Board
Cheerwin Group Limited
Chen Danxia

Executive Director, Chairman and Chief Executive Officer

Hong Kong, 26 March 2021

As at the date of this announcement, the Board comprises Ms. Chen Danxia, Mr. Xie Rusong and Mr. Zhong Xuyi as executive Directors; Mr. Chen Zexing as non-executive Director; and Dr. De-Chao Michael Yu, Mr. Guo Sheng and Mr. Chan Wan Tsun Adrian Alan as independent non-executive Directors.