THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Cheerwin Group Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

CHEERWIN

Cheerwin Group Limited

朝雲集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6601)

RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Innovax Capital

Capitalised terms used in this cover page and the contents of this circular shall have the same meanings as those defined in the section headed "DEFINITIONS" of this circular.

A letter from the Board is set out on pages 5 to 17 of this circular. A letter from the Independent Board Committee is set out on pages 18 to 19 of this circular. A letter from Innovax Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 41 of this circular.

A notice convening the EGM to be held at 5/F, North Podium Building, No. 2, Luju Road, Liwan District, Guangzhou, Guangdong Province, PRC on Friday, 29 December 2023 at 10:30 a.m. is set out on pages 46 to 48 of this circular.

A form of proxy for use in connection with the EGM is enclosed with this circular. Such form of proxy is also published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cheerwin.com). If you are not able or do not intend to attend the EGM in person and wish to exercise your right as a Shareholder, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event, not later than 48 hours before the time appointed for holding the EGM or its adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or its adjournment if you so wish. If you attend and vote at the EGM, the instrument appointing your proxy will be deemed to have been revoked.

Hong Kong, 7 December 2023

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In this circular, the following expressions shall have the following respective meanings unless the context otherwise requires:

"Board"	the board of Directors
"Cheerwin Global BVI"	Cheerwin Global Limited (朝雲環球有限公司), a limited liability company incorporated in the BVI on 27 March 2018, and one of the controlling shareholders of the Company
"Chengdu Liby"	Chengdu Liby Shiye Company Limited (成都立白實業有限公司), a limited liability company established in the PRC on 8 December 2000, and is directly held as to 65.0% and 35.0% by Mr. KX Chen and Mr. KC Chen, respectively
"Chens' Associates"	Mr. KX Chen, Mr. KC Chen, and their associates
"Company"	Cheerwin Group Limited (朝雲集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 6601)
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve, inter alia, the Proposed Caps and the agreements in respect of the Non-Exempt Continuing Connected Transactions
"Existing Cap(s)"	the existing cap(s) (as applicable) for the Non-Exempt Continuing Connected Transactions set out in the section headed "Renewal of Non-Exempt Continuing Connected Transactions" in this circular
"Group"	the Company and its subsidiaries
"Guangzhou Liby"	Guangzhou Liby Group Company Limited (廣州立白企業集團有限公司), a limited liability company established in the PRC on 25 February 1998, and is directly held as to and 64.22% and 34.58% by Mr. KX Chen and Mr. KC Chen, the Controlling Shareholders, respectively and is indirectly held as to 1.20% by Mr. KX Chen and Mr. KC Chen through Guangdong Liby Washing, Shanghai Liby and Chengdu Liby

"Guangdong Liby Washing"	Guangdong Liby Washing Products Company Limited (廣東立白洗滌用品有限公司), a limited liability company established in the PRC on 31 October 1997, and is directly held as to 65.0% and 35.0% by Mr. KX Chen and Mr. KC Chen, respectively
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	a committee of the Board comprising the independent non-executive Directors, namely Dr. Yu Rong, Mr. Guo Sheng, Mr. Chan Wan Tsun Adrian Alan
"Independent Financial Adviser" or "Innovax Capital"	Innovax Capital Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO, being the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the New Sales Framework Agreement and the New Outsourcing Framework Agreement, and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders who are not required to abstain from voting at the EGM
"Independent Third Party(ies)"	a person or entity who is not a connected person of the Company under the Listing Rules
"Interim Report"	the interim report of the Company for the six months ended 30 June 2023
"Latest Practicable Date"	4 December 2023, being the latest practicable date prior to publication of this circular for the purpose of ascertaining certain information contained herein
"Liby Group"	Guangzhou Liby, its subsidiaries and associates
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. KC Chen"	Mr. Chen Kaichen (陳凱臣), one of the founders and one of the controlling shareholders of the Company

"Mr. KX Chen"	Mr. Chen Kaixuan (陳凱旋), one of the founders and one of the controlling shareholders of the Company
"Ms. Li"	Ms. Li Ruohong (李若虹), the wife of Mr. KX Chen and one of the controlling shareholders of the Company
"Ms. Ma"	Ms. Ma Huizhen (馬惠真), the wife of Mr. KC Chen and one of the controlling shareholders of the Company
"New Outsourcing Framework Agreement"	the outsourcing framework agreement dated 23 November 2023 in relation to the outsource of the production of certain of the Group's products to the Chens' Associates
"New Sales Framework Agreement"	the sales framework agreement dated 23 November 2023 in relation to the sale of products to the Chens' Associates
"Non-Exempt Continuing Connected Transaction Agreements"	the continuing connected transaction agreements between the Group and the connected persons as more particularly set out in the section headed "Renewal of Non-Exempt Continuing Connected Transactions" in this circular, for which the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules exceed 5%, namely: i. the New Sales Framework Agreement with Mr. KX Chen and Mr. KC Chen; and ii. the New Outsourcing Framework Agreement with Mr. KX Chen and Mr. KC Chen
"Non-Exempt Continuing Connected Transactions"	the continuing connected transactions of the Group under Chapter 14A of the Listing Rules as set out under the section headed "Renewal of Non-Exempt Continuing Connected Transactions" in this circular, for which the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules exceed 5%, namely the transactions contemplated under: i. the New Sales Framework Agreement; and ii. the New Outsourcing Framework Agreement
"Outsourcing Framework Agreement"	the outsourcing framework agreement dated 19 February 2021 in relation to the outsource of the production of certain of the Group's products to the Chens' Associates

"PRC"	the People's Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this circular
"Proposed Cap(s)"	annual cap(s) for the Non-Exempt Continuing Connected Transactions for the three years ending 31 December 2026 set out in the section headed "Renewal of Non-Exempt Continuing Connected Transactions" in this circular
"RMB"	Renminbi, the lawful currency of the PRC
"Sales Framework Agreement"	the sales framework agreement dated 19 February 2021 in relation to the sale of products to Liby Group
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Liby"	Shanghai Liby Shiye Company Limited (上海立白實業有限公司), a limited liability company established in the PRC on 9 August 2002, and is directly held as to 65.0% and 35.0% by Mr. KX Chen and Mr. KC Chen, respectively
"Share(s)"	ordinary share(s) in the capital of the Company with the nominal value of US$0.0000002 each
"Share Option Scheme"	the share option scheme adopted by the Company on 23 July 2021
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"%"	per cent

In this circular, the terms "associate", "connected person", "controlling shareholder", "percentage ratios" and "subsidiary" have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Cheerwin Group Limited
朝雲集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6601)

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

Non-executive Directors
Mr. Chen Zexing

Independent Non-executive Directors
Dr. Yu Rong
Mr. Guo Sheng
Mr. Chan Wan Tsun Adrian Alan

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
PRC

Principal Place of Business in Hong Kong:
31/F, Tower Two, Times Square
1 Matheson Street, Causeway Bay
Hong Kong

7 December 2023

To the Shareholders

Dear Sir or Madam,

RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the prospectus of the Company dated 26 February 2021 and the announcement of the Company dated 23 November 2023, in which it was stated that the Company has entered into, among others, (i) the New Sales Framework Agreement; and (ii) the New Outsourcing Framework Agreement, with Mr. KX Chen and Mr. KC Chen, respectively, in respect of the Non-Exempt Continuing Connected Transactions as particularly set out therein.

This circular gives you further information in relation to (i) further details of the Non-Exempt Continuing Connected Transactions including the relevant Proposed Caps; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transactions and the relevant Proposed Caps; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transactions and the relevant Proposed Caps; (iv) a notice of the EGM; and (v) other information as required under the Listing Rules.

2. RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Details of the Non-Exempt Continuing Connected Transaction Agreements are set out below:

A. New Sales Framework Agreement with Mr. KX Chen and Mr. KC Chen

Date	:	23 November 2023 (after trading hours)
Parties	:	(1) The Company (for itself and on behalf of its subsidiaries); and (2) Mr. KX Chen and Mr. KC Chen (for themselves and on behalf of their associates).
Duration	:	1 January 2024 to 31 December 2026
Subject matter	:	The Group agreed to sell its products to Chens' Associates in the ordinary course of business, such products including but not limited to, its (i) household care products (e.g. household insecticides and repellents, household cleaning products and air care products), (ii) personal care products, and (iii) pet products.

Price determination : The Group prices its sales to Chens' Associates based on a reasonable margin around 40%. In particular, in order to maintain a reasonable retail price for our Group's products, the Group would also take into account, (1) the direct or indirect costs (including but not limited to logistics and distribution costs, salary and wages, information fees, display fees and annual maintenance fees) incurred by Chens' Associates in dealing with key accounts and other customers (if applicable); and (2) with reference to the margins for products of comparable quality, specifications, and quantities charged by Independent Third Party distributors that mainly deal with key accounts. The Group provides recommended retail price for the customers of Chens' Associates, such as key accounts. The margin charged by the Group on Chens' Associates is comparable to that of the Independent Third Party distributors.

Additional fees shall be jointly confirmed by both parties, and shall be determined based on the fees charged by other Independent Third Parties for similar products and the prices of similar products in the market. The fees shall not exceed the standard fees specified by the relevant regulatory authorities (if applicable).

Transaction principles : Both parties shall agree on the payment price for individual agreements as and when required, based on the principles of fairness, reasonableness, and commercial practice. All transactions between the parties shall be conducted on general commercial terms as part of their regular business.

The Group do not generally set minimum purchase requirement or sales target for Chens' Associates, and the Group do not provide any incentive scheme for them.

The Group will provide monthly invoice to Chens' Associates, and they shall make payment via wire transfer within 45 days upon receiving the relevant invoice.

The table below summarises the Existing Caps for the three years ending 31 December 2023 under the Sales Framework Agreement:

	Year ended 31 December 2021	Year ended 31 December 2022	Year ending 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*
Existing Caps	437,700	512,000	639,800

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2022 (audited) and the six months ended 30 June 2023 (unaudited) under the Sales Framework Agreement:

	Year ended 31 December 2021	Year ended 31 December 2022	Six months ended 30 June 2023
	RMB'000	*RMB'000*	*RMB'000*
Actual transaction amount (approximately)	270,427	199,064	145,535

The following sets forth the Proposed Caps under the New Sales Framework Agreement:

	Year ending 31 December 2024	Year ending 31 December 2025	Year ending 31 December 2026
	RMB'000	*RMB'000*	*RMB'000*
Proposed Caps	224,100	257,700	296,400

The Proposed Caps have been prepared by the Company primarily based on:

(i) historical transaction amounts of payments received by the Group under the Sales Framework Agreement for the sales of their products which amounted to approximately RMB270.4 million, RMB199.1 million and RMB145.5 million for the two years ended 31 December 2022 and the six months ended 30 June 2023, respectively; and the percentage of revenue generated from Liby Group in proportion to the total revenue of the Group, which accounted for approximately 15.3%, 13.8% and 12.8% of the Group's total revenue for the two years ended 31 December 2022 and the six months ended 30 June 2023, respectively;

(ii) the potential revenue to be generated from the Chens' Associates for the sales of the Group's products. In particular, while we did not enter into any sales with any Chens' Associates save as the Liby Group under the Sales Framework Agreement, the Group would like to explore new potential business opportunities and sales channels by cooperating with other Chens' Associates besides the Liby Group, with an aim to leverage on the business network of the other Chens' Associates, and also maintain the longstanding business relationship with Liby Group. Nonetheless, as at the Latest Practicable Date, the Group has yet to formulate any concrete sales plan with any of the Chens' Associates other than the Liby Group, and the Group expects that the sales to the Chens' Associates under the New Sales Framework Agreement for the three years ending 31 December 2026 will still mainly comprise of sales of products to Liby Group; and

(iii) the projected sales volume for the three years ending 31 December 2026, in particular, an expected annual growth rate of approximately 10% to 15% in terms of sales amount, after taking into account the anticipated growth across the Group's customer base through their continuous product upgrade and increasing consumer awareness towards household and personal care since COVID-19 pandemic.

Reasons and benefits for the transactions

The Group entered into the New Sales Framework Agreement with Chens' Associates in order to leverage on the network of Chens' Associates, and in particular Liby Group, which includes access to many key accounts such as leading national and regional hypermarkets, supermarkets, department stores and convenience store operators.

The transactions contemplated under the New Sales Framework Agreement are beneficial for the business growth of the Group, as the sales channels of Chens' Associates would allow the Group to utilise their sizeable base of customers and help increase the coverage and demand of the Group's products in the market. The Directors believe that the sales to Chens' Associates would provide the Group with stable source of income.

Listing Rules implications

As one or more of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Proposed Caps for the New Sales Framework Agreement for the three years ending 31 December 2026 referred to in this sub-section exceed 5%, it constitutes a Non-Exempt Continuing Connected Transaction. This Non-Exempt Continuing Connected Transaction and its Proposed Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As this Non-Exempt Continuing Connected Transaction for the three years ending 31 December 2026 is a Non-Exempt Continuing Connected Transaction and the Proposed Caps are subject to the approval of the Independent Shareholders, the New Sales Framework Agreement is conditional upon the said resolution being passed at the EGM.

B. New Outsourcing Framework Agreement with Mr. KX Chen and Mr. KC Chen

Date	:	23 November 2023 (after trading hours)
Parties	:	(1) The Company (for itself and on behalf of its subsidiaries); and (2) Mr. KX Chen and Mr. KC Chen (for themselves and on behalf of their associates).
Duration	:	1 January 2024 to 31 December 2026
Subject matter	:	The Group agreed to outsource the production of certain products, including but not limited to, disinfectants, toilet cleaners, kitchen cleaners, soap and other personal care and household cleaning products, to Chens' Associates in the ordinary course of business.
Price determination	:	The purchase price payable by the Group to the Chens' Associates shall be determined with reference to the production costs of the relevant products plus a profit margin determined through arm's length negotiation with reference to comparable profit margin of Independent Third Party manufacturers in the same industry, which the Group obtained from Independent Third Party manufactures in their daily operations. The Group would run a price quote process to check price quotes from one to three Independent Third Party qualified suppliers for the products of same specification and quality. Provided that both the Chens' Associates and Independent Third Party suppliers are able to deliver products of similar quality within the Group's specified timeframe, if a lower price exists, the Group would either engage Independent Third Party supplier to carry out the work or negotiate with the Chens' Associates for price adjustments accordingly.

Transaction principle	:	The parties will enter into separate business agreements which will set out specific terms and services to be provided according to the New Outsourcing Framework Agreement. The Chens' Associates will provide monthly invoice to the Group, and the Group shall make payment via wire transfer within 45 days from the first day of each month.

The table below summarises the Existing Caps for the three years ending 31 December 2023 under the Outsourcing Framework Agreement:

	Year ended 31 December 2021	**Year ended 31 December 2022**	**Year ending 31 December 2023**
	RMB'000	*RMB'000*	*RMB'000*
Existing Caps	279,900	337,500	410,100

The table below summarises the actual transaction amounts involved for the two years ended 31 December 2022 (audited) and the six months ended 30 June 2023 (unaudited) under the Outsourcing Framework Agreement:

	Year ended 31 December 2021	**Year ended 31 December 2022**	**Six months ended 30 June 2023**
	RMB'000	*RMB'000*	*RMB'000*
Actual transaction amount (approximately)	174,199	152,952	68,513

The following sets forth the Proposed Caps under the New Outsourcing Framework Agreement:

	Year ending 31 December 2024	**Year ending 31 December 2025**	**Year ending 31 December 2026**
	RMB'000	*RMB'000*	*RMB'000*
Proposed Caps	172,600	193,300	216,500

The Proposed Caps have been prepared by the Company primarily based on:

(i) the historical amount of payments paid by the Group for the procurement of products and the percentage of outsourcing costs incurred from purchasing from the Chens' Associates in proportion to the Group's total outsourcing costs; and

(ii) the expected demand for the Group's products for the three years ending 31 December 2026 based on the anticipated expansion of the Group's business through the Group's continuous product upgrade and due to increasing consumer awareness towards household and personal care since COVID-19 pandemic. From 2021 to 2023, a total of no less than 500 products were newly launched and upgraded by the Group, and it is anticipated that no less than 300 products will be launched and upgraded by the Group from 2024 to 2026. By diversifying the Group's overall product portfolio, it will also broaden the product lines of the Group. Therefore, besides outsourcing the production of certain existing products to the Chens' Associates, the Group would not rule out the possibility of further collaborating with the Chens' Associates for production of the newly launched and upgraded products, hence, it is expected that the Group's demand of outsourcing services from the Chens' Associates for product manufacturing would increase accordingly.

Reasons and benefits for the transactions

Given the history of business relationship between the Group and the Chens' Associates, the Chens' Associates have supplied the Group with certain products, such as household care and personal care, in the past. Taking into account (i) the experience and reputation of the Chens' Associates in the industry; (ii) the track record of the Chens' Associates in supplying the products to the Group, particularly their reliability in delivery of orders in a timely manner, their product quality and their adequacy in production capacity; and (iii) the Chens' Associates' in depth understanding of the Group's product requirements, the Directors believe that they can provide the required products that suit the Group's needs most appropriately.

Listing Rules implications

As one or more of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Proposed Caps for the New Outsourcing Framework Agreement for the three years ending 31 December 2026 referred to in this sub-section exceed 5%, they constitute a Non-Exempt Continuing Connected Transaction. The Non-Exempt Continuing Connected Transaction and its Proposed Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As this Continuing Connected Transaction for the three years ending 31 December 2026 is a Non-Exempt Continuing Connected Transaction and the Proposed Caps are subject to the approval of the Independent Shareholders, the New Outsourcing Framework Agreement is conditional upon the said resolution being passed at the EGM.

3. INFORMATION ABOUT THE PARTIES UNDER THE NON-EXEMPT CONTINUING CONNECTED TRANSACTION AGREEMENTS

The Company and the Group

The Company is an exempted company incorporated in the Cayman Islands with limited liability. The Group principally engages in development and manufacturing of a variety of household care, pet and pet products and personal care products.

Mr. KX Chen and Mr. KC Chen

Mr. KX Chen and Mr. KC Chen, who are brothers, and their respective spouse, Ms. Li and Ms. Ma, hold 6.5%, 3.5%, 58.5% and 31.5%, respectively, of Cheerwin Global BVI, which in turn owns approximately 74.25% of the issued Shares, pursuant to the Stock Exchange's Guidance Letter GL89-16, Mr. KX Chen, Mr. KC Chen, Ms. Li, Ms. Ma and Cheerwin Global BVI are presumed to be a group of Controlling Shareholders by virtue of their holdings through a common investment vehicle as well as their spousal relationships.

Mr. KX Chen, Mr. KC Chen, Ms. Li and Ms. Ma have also entered into a concert parties arrangement letter dated 28 August 2020, pursuant to which they confirmed their agreement to act in concert in relation to the exercise of their voting rights at the meetings of the Shareholders of the Company.

4. IMPLICATIONS OF THE LISTING RULES

As at the Latest Practicable Date, Mr. KX Chen and Mr. KC Chen, who are brothers, and their respective spouses (namely Ms. Li and Ms. Ma) collectively hold the entire issued share capital of Cheerwin Global BVI, which in turn holds approximately 74.25% of the issued Shares. Therefore, Mr. KX Chen and Mr. KC Chen, are connected persons of the Company under the Listing Rules. Accordingly, entering into the New Sales Framework Agreement and New Outsourcing Framework Agreement with Mr. KX Chen and Mr. KC Chen, constitutes connected transactions of the Company.

As one or more of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Proposed Caps for the continuing connected transactions for the three years ending 31 December 2026 referred to in the section headed "Renewal of Non-Exempt Continuing Connected Transactions" of this circular exceed 5%, they constitute Non-Exempt Continuing Connected Transactions. The Non-Exempt Continuing Connected Transactions and their Proposed Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Two of the Directors, Ms. Chen Danxia (being the daughter of Mr. KC Chen) and Mr. Chen Zexing (being the son of Mr. KX Chen), in view of their relationship with Mr. KC Chen and Mr. KX Chen, have abstained from voting on the resolutions at the Board meeting for approving the New Sales Framework Agreement and New Outsourcing Framework Agreement and the relevant Proposed Caps. Save as disclosed above, none of the Directors has abstained from voting on such resolutions at the Board meeting.

5. INTERNAL CONTROL MEASURES

In order to ensure continuous compliance with the proposed annual caps and the relevant requirements under Chapter 14A of the Listing Rules, the Company has adopted the internal control measures below:

- the Group adopted policies to ensure compliance with the Listing Rules, including but not limited to internal control mechanisms to identify connected transactions;

- the Group organises training sessions for their Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong, in particular the relevant requirements in relation to continuing connected transactions under Chapter 14A of the Listing Rules;

- the senior management and relevant departments of the Group will review and assess whether the terms set forth in a specific transaction agreement are consistent with each of the continuing connected transaction agreements, no less favourable than those offered to or received from Independent Third Parties, and adhere to the respective pricing basis of the transactions by collating updated information on the prevailing market prices of the products or services from time to time. Market prices will be obtained through, among other things, recent transactions of the Group with Independent Third Parties, pricing information obtained through enquiry with other industry players and desk-top research on industry websites;

- specifically assigned personnel from the relevant departments of the Group will check and monitor the transaction amounts to ensure that the maximum transaction amounts would not exceed the relevant annual caps under the continuing connected transaction framework agreements, and the respective pricing basis and transaction principles as set out are complied with;

- the finance department of the Group will monitor the transaction amounts contemplated under each continuing connected transaction framework agreement on a regular basis. If the aggregate transaction amount reaches 90% of the relevant annual cap or is expected to exceed the relevant annual cap in the coming two months, the finance department of the Group must notify the Board as soon as practicable, and the Board shall determine the appropriate action to be taken;

- the internal audit department of the Group will assess the Group's continuing connected transactions in accordance with the relevant continuing connected transaction framework agreement in each financial year, to ensure that the pricing basis and internal control procedures are complied with;

- the independent non-executive Directors review the continuing connected transactions of the Company on a half-yearly basis to consider whether all of the continuing connected transactions of the Group are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, or, if applicable, are conducted in accordance with the relevant pricing policies and on terms that are fair and reasonable and in the interests of the Company and Shareholders as a whole; and

- the auditors of the Company review the terms and annual caps of the continuing connected transactions contemplated under the relevant contracts on an annual basis.

6. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 22 December 2023 to Friday, 29 December 2023 (both days inclusive), for the purpose of ascertaining shareholders' entitlement to attend and vote at the EGM. In order to be entitled to attend and vote at the EGM, all completed transfer documents accompanied by the relevant share certificates must be lodged 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 no later than 4:30 p.m. (Hong Kong time) on Thursday, 21 December 2023.

7. EGM

A notice convening the EGM to be held at 5/F, North Podium Building, No. 2, Luju Road, Liwan District, Guangzhou, Guangdong Province, PRC on Friday, 29 December 2023 at 10:30 a.m. is set out on pages 46 to 48 of this circular, at which the resolutions will be proposed for the purpose of considering and, if thought fit, approving, among others, (i) the Non-Exempt Continuing Connected Transaction Agreements and the Proposed Caps in respect of the transactions contemplated thereunder; and (ii) that any one of the Directors be authorised to do all such acts and things and to sign and execute all such other documents or instrument for and on behalf of the Company in connection with the Non-Exempt Continuing Connected Transaction Agreements, and the transactions contemplated thereunder.

A form of proxy for use in connection with the EGM is enclosed with this circular and can also be downloaded from the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cheerwin.com). If you are not able or do not intend to attend the EGM and wish to exercise your right as a Shareholder, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event, not later than 48 hours before the time appointed for holding the EGM or its adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude any Shareholder from attending and voting in person at the EGM or its adjournment should he/she/it so wishes. If the Shareholder attends and votes at the EGM, the instrument appointing the proxy will be deemed to have been revoked.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Non-Exempt Continuing Connected Transactions. As at the Latest Practicable Date, Mr. KX Chen and Mr. KC Chen, who are brothers, and their respective spouse, Ms. Li and Ms. Ma, hold 6.5%, 3.5%, 58.5% and 31.5%, respectively, of Cheerwin Global BVI, which in turn owns 990,000,000 Shares, representing approximately 74.25% of the issued Shares. Pursuant to the Stock Exchange's Guidance Letter GL89-16, Mr. KX Chen, Mr. KC Chen, Ms. Li, Ms. Ma and Cheerwin Global BVI are presumed to be a group of Controlling Shareholders by virtue of their holdings through a common investment vehicle as well as their spousal relationships. Further, as at the Latest Practicable Date, Ms. Chan Danxia (being the daughter of Mr. KC Chen), also owns 3,993,500 Shares, representing approximately 0.30% of the issued Shares. In view of the relationships set out above, Mr. KX Chen, Mr. KC Chen, Ms. Li, Ms. Ma, Cheerwin Global BVI and Ms. Chan Danxia, holding in aggregate 993,993,500 Shares (representing approximately 74.55% of the issued Shares), will abstain from voting on the resolutions in relation to the Non-Exempt Continuing Connected Transactions at the EGM. To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, save as Mr. KX Chen, Mr. KC Chen, Ms. Li, Ms. Ma, Cheerwin Global BVI and Ms. Chan Danxia, no Shareholder has a material interest in the resolutions in respect of the Non-Exempt Continuing Connected Transactions or should be required to abstain from voting on the resolutions to be proposed at the EGM.

8. VOTING BY POLL AT THE EGM

Pursuant to Article 66 of the Company's articles of association and Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions to be proposed at the EGM and contained in the notice of the EGM will be voted by way of poll.

9. RECOMMENDATION

The Directors (including the independent non-executive Directors whose view is set out in the letter from the Independent Board Committee in this circular) are of the view that the Non-Exempt Continuing Connected Transaction Agreements, the Non-Exempt Continuing Connected Transactions contemplated therein, and the Proposed Caps are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Independent Shareholders should vote in favour of the relevant resolutions to be proposed at the EGM to approve (i) the Non-Exempt Continuing Connected Transaction Agreements; and (ii) the Proposed Caps.

10. LITIGATIONS

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group or to which any member of the Group may become a party.

11. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular and the notice of the EGM.

12. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

By order of the Board
Cheerwin Group Limited
Chen Danxia
Executive Director, Chairman and Chief Executive Officer

The following is the full text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transaction Agreement, and the relevant Proposed Caps:

CHEERWIN

Cheerwin Group Limited
朝雲集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6601)

7 December 2023

To the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 7 December 2023 issued by the Company (the "**Circular**") of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Non-Exempt Continuing Connected Transaction Agreements and the relevant Proposed Caps and to advise the Independent Shareholders as to the fairness and reasonableness of the same. Innovax Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATION

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 17 of the Circular, and the letter from Innovax Capital which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Non-Exempt Continuing Connected Transaction Agreements and the relevant Proposed Caps as set out on pages 20 to 41 of the Circular. After taking into consideration the advice from Innovax Capital, we concur with their views and consider that (i) the terms of the Non-Exempt Continuing Connected Transaction Agreements are fair and reasonable and on normal commercial terms, and the Non-Exempt Continuing Connected Transaction Agreements are in the interests of the Company and the Shareholders as a whole and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group; and (ii) the relevant Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve (i) the Non-Exempt Continuing Connected Transaction Agreements, and (ii) the relevant Proposed Caps.

Yours faithfully,
Independent Board Committee

Dr. Yu Rong	**Mr. Guo Sheng**	**Mr. Chan Wan Tsun Adrian Alan**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from Innovax Capital to the Independent Board Committee and the Independent Shareholders in respect of the Non-Exempt Continuing Connected Transactions, which has been prepared for the purpose of inclusion in this circular.

Innovax Capital

7 December 2023

To: The Independent Board Committee and the Independent Shareholders of Cheerwin Group Limited

Dear Sir/Madam,

RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Non-Exempt Continuing Connected Transaction Agreements and the Proposed Caps entered into between the Company and Mr. KX Chen and Mr. KC Chen, respectively, details of which are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 7 December 2023 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the prospectus of the Company dated 26 February 2021 (the "**Prospectus**") relating to, inter alia, the Sales Framework Agreement and the Outsourcing Framework Agreement, the transactions contemplated thereunder and the related annual caps.

As the Sales Framework Agreement and Outsourcing Framework Agreement will expire on 31 December 2023. The Directors expect such transactions will continue thereafter. In this connection, on 23 November 2023, the Company entered into, among others, the New Sales Framework Agreement and the New Outsourcing Framework Agreement with Mr. KX Chen and Mr. KC Chen, for a period from 1 January 2024 to 31 December 2026.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Mr. KX Chen and Mr. KC Chen, who are brothers, and their respective spouses (namely Ms. Li and Ms. Ma) collectively hold the entire issued share capital of Cheerwin Global BVI, which in turn holds approximately 74.25% of the issued Shares.

Therefore, Mr. KX Chen and Mr. KC Chen, are connected persons of the Company under the Listing Rules. Accordingly, the entering into the New Sales Framework Agreement and New Outsourcing Framework Agreement with Mr. KX Chen and Mr. KC Chen, constitute connected transactions of the Company.

As one or more of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Proposed Caps for the New Sales Framework Agreement and New Outsourcing Framework Agreement for the three years ending 31 December 2026 exceed 5%, they constitute Non-Exempt Continuing Connected Transactions of the Company. The Non-Exempt Continuing Connected Transactions and their Proposed Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Two of the Directors, Ms. Chen Danxia (being the daughter of Mr. KC Chen) and Mr. Chen Zexing (being the son of Mr. KX Chen), in view of their relationship with Mr. KC Chen and Mr. KX Chen, have abstained from voting on the resolutions at the Board meeting for approving the New Sales Framework Agreement and New Outsourcing Framework Agreement and the relevant Proposed Caps. Save as disclosed above, none of the Directors has abstained from voting on such resolutions at the Board meeting.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising the independent non-executive Directors (namely Dr. Yu Rong, Mr. Guo Sheng and Mr. Chan Wan Tsun Adrian Alan) has been established by the Company for the purpose of advising the Independent Shareholders on the Non-Exempt Continuing Connected Transaction Agreements are in the ordinary and usual course of business of the Company, and the terms thereof are on normal commercial terms, and the Non-exempt Continuing Connected Transactions and the Proposed Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We, Innovax Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company, Mr. KX Chen, Mr. KC Chen or any other parties that could reasonably be regarded as relevant in assessing our independence. In the previous two years from the date of the Circular, we have not acted as an independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company for any transaction. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things, (i) the Prospectus; (ii) the annual reports of the Company for the two years ended 31 December 2021 (the "**2021 Annual Report**") and 2022 (the "**2022 Annual Report**"); and (iii) the interim report of the Company for the six months ended 30 June 2023 (the "**2023 Interim Report**").

We have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management (for which they are solely and wholly responsible), were true and accurate at the time they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. The Directors have confirmed to us that no material facts have been withheld or omitted from the information provided, representations made or opinions expressed. We have no reason to suspect that any material facts or information has been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Directors and the Management. We believe that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular, which includes particular given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all materials respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Non-Exempt Continuing Connected Transaction Agreements and the Proposed Caps. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken the following principal factors and reasons into consideration:

1. Information of the Group

1.1 Background information of the Group

The Group is a leading one-stop multi-category platform for household care, pet and pet care and personal care products in the PRC, specialising in the development and manufacturing of a diverse range of household care products, pet and pet products and personal care products.

1.2 Historical financial performance of the Group

Set out below is the summary of the consolidated financial information of the Company as extracted from the 2022 Annual Report and 2023 Interim Report.

	For the year ended 31 December		For the six months ended 30 June	
	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000* (unaudited)
Revenue	1,769,157	1,442,194	1,023,180	1,132,761
Gross profit	787,426	599,808	400,511	467,781
Profit for the year/period	90,765	64,085	89,427	135,700

*For the six months ended 30 June 2023 ("**1H2023**") and 30 June 2022 ("**1H2022**")*

The Group's total revenue amounted to approximately RMB1,132.8 million for 1H2023, representing an increase of approximately RMB109.6 million or 10.7% from 1H2022. According to the 2023 Interim Report, such increase was mainly due to (i) the recovery of the COVID-19 pandemic and lifting of the quarantine measures; (ii) optimisation of product category structure as the Group continued to upgrade the existing product line and develop new products with high profit margins; and (iii) steady growth in revenue generated from online and offline channels. The gross profit of the Group increased by approximately RMB67.3 million or 16.8% to approximately RMB467.8 million for 1H2023 from approximately RMB400.5 million for 1H2022, which was primarily due to the optimisation of product category structure and supply chain management. The Group implemented various measures such as centralised procurement and strategic cooperation to enhance cost competitiveness.

For 1H2022 and 1H2023, the revenue generated from Liby Group remained relatively stable at approximately RMB150.3 million and RMB145.5 million, representing approximately 14.7% and 12.8% of the Group's total revenue, respectively.

The net profit for the Group amounted to approximately RMB135.7 million for 1H2023, representing an increase of approximately RMB46.3 million or 51.7% from approximately RMB89.4 million for 1H2022, which was primarily due to the increase in revenue as mentioned above and increase in other income of approximately RMB24.5 million resulting from increase in bank interests.

*For the year ended 31 December 2022 (“**FY2022**”) and 31 December 2021 (“**FY2021**”)*

The Group’s total revenue amounted to approximately RMB1,442.2 million for FY2022, representing a decrease of approximately RMB327.0 million or 18.5% from FY2021. According to the 2022 Annual Report, such decrease was mainly due to (i) the disruption of online orders delivery, constraints on supply of goods and decline in passenger flow of retail terminals under the control and prevention measures during the resurgence of COVID-19 pandemic; and (ii) abnormal weather, for example heatwaves and widespread droughts in the PRC, leading to decrease in demand for insecticide and repellent products, which is under the Group’s leading product category. The gross profit of the Group decreased to a larger extent by approximately RMB187.6 million or 23.8% compared to the decrease in revenue in FY2022, which was primarily due to the continuous rising cost of raw materials and packaging materials as a result of supply chain disruptions during the resurgence of COVID-19 pandemic.

For FY2021 and FY2022, the revenue generated from Liby Group amounted to approximately RMB270.4 million and RMB199.1 million, representing approximately 15.3% and 13.8% of the Group’s total revenue, respectively. Such decrease was largely due to the adverse impact of the resurgence of COVID-19 pandemic.

The net profit for Group amounted to approximately RMB64.1 million for FY2022, representing a decrease of approximately RMB26.7 million or 29.4% from FY2021 which was primarily due to the decrease in gross profit as mentioned above.

2. Information on the Connected Persons

2.1 Mr. KX Chen and Mr. KC Chen

Mr. KX Chen and Mr. KC Chen, who are brothers, and their respective spouse, Ms. Li and Ms. Ma, hold 6.5%, 3.5%, 58.5% and 31.5%, respectively, of Cheerwin Global BVI, which in turn owns approximately 74.25% of the issued Shares, pursuant to the Stock Exchange’s Guidance Letter GL89-16, Mr. KX Chen, Mr. KC Chen, Ms. Li, Ms. Ma and Cheerwin Global BVI are presumed to be a group of Controlling Shareholders by virtue of their holdings through a common investment vehicle as well as their spousal relationships.

Mr. KX Chen, Mr. KC Chen, Ms. Li and Ms. Ma have also entered into a concert parties arrangement letter dated 28 August 2020, pursuant to which they confirmed their agreement to act in concert in relation to the exercise of their voting rights at the meetings of the Shareholders of the Company.

Chens' Associates also have interests in a number of other business segments, which include consumer products, health food products, property investment, asset management and financial services. Liby Group is a group of companies controlled and owned by Mr. KX Chen and Mr. KC Chen, primarily engaged in production and distribution of fabric care, dish care and personal care products, including but not limited to detergents, softeners, soaps and dish soaps in the PRC.

3. Reasons for and benefits of entering into the Non-Exempt Continuing Connected Transaction Agreements

3.1 New Sales Framework Agreement

As stated in the letter from the Board, the Group entered into the New Sales Framework Agreement with Chens' Associates in order to leverage on their network, particularly enabling the Group to maintain its business relationship with Liby Group, whom has access to many key accounts, primarily including leading national and regional hypermarkets, supermarkets, department stores and convenience store operators. The transactions contemplated under the New Sales Framework Agreement are beneficial for the business growth of the Group, as the sales channels of Liby Group would allow the Group to utilise their sizeable base of customers and help increase the coverage and the demand of the Group's products in the market. The Directors believe that the sales to Chens' Associates would provide the Group with stable source of income.

We understand from the Management, the Group has been selling some of its products to Liby Group, which further on-sells the Group's products through its distribution networks. Through the Sales Framework Agreement, the Group gained access to around 48 key accounts clients, including operators of national and regional hypermarkets, supermarkets, department stores and convenience stores, covering approximately 11,000 points-of-sales in the PRC as at 2021. In addition, Liby Group sells a small portion of the Group's products to its overseas distributors. We were further advised by the Management that, to their best of knowledge, other offline distributors they cooperated with did not sell the Group's products and did not have access to the key accounts procured through Liby Group. These key accounts prefer to deal with suppliers with a nationwide coverage generally. Due to business considerations, the Group collaborates with local distributors who have expertise in local distribution but do not possess logistics capability and manpower resources to service key accounts with nationwide or multi-region operation. Therefore, we are of the view that the sales to Chens' Associates would contribute to the Group's business growth without incurring too much operational, promotional and selling and distribution costs, strengthening the Group's market position and enhance its brand image. It is also in line with the Group's business strategy to strategically leverage the Liby Group channel to approach potential customers as stated in the Prospectus.

As discussed with the Management, the Group has maintained a long and stable business relationship with Liby Group since 2016. According to the 2022 Annual Report, despite the adverse impact brought about by the COVID-19 pandemic, the Group generated revenues of RMB270.4 million and RMB199.1 million from the sales to Liby Group, still accounting for a significant portion, approximately 15.3% and 13.8%, of the Group's total revenue for FY2021 and FY2022, respectively. Therefore, the sales to Liby Group have consistently provided the Group with a stable source of income even during challenging periods of the COVID-19 pandemic.

Given the above, in particular the access to key accounts, the extensive distribution channels of Liby Group, the stable source of income generated from the Sales Framework Agreement and our analysis on the major terms of the New Sales Framework Agreement (as elaborated below), we concur with the view of the Board that the entering into the New Sales Framework Agreement falls within the ordinary and usual course of business of the Group and is in the interests of the Company and Shareholders as a whole.

3.2 New Outsourcing Framework Agreement

As stated in the letter from the Board, given the history of business relationship between the Group and the Chens' Associates, the Chens' Associates have supplied the Group with certain products, such as household care and personal care products, in the past. Taking into account (i) the experience and reputation of Chens' Associates in the industry; (ii) the track record of the Chens' Associates in supplying the products to the Group, particularly their reliability in delivery of orders in a timely manner, their product quality and their adequacy in production capacity; and (iii) the Chens' Associates' in depth understanding of the Group's product requirements, the Directors believe that they can provide the required products that suit the Group's needs most appropriately.

In order to response promptly to change in consumer demand and market conditions, entering into the New Outsourcing Framework Agreement will be able to provide flexibility in the Group's production planning and enhance cost effectiveness. It also allows the Group to increase production capacity in a timely manner without incurring additional capital expenditure.

Based on the public information, Chens' Associates, in particular, Liby Group, has more than 20 years of experience in producing household care and personal care products. As advised by the Management, the Group has been having business co-operation with Liby Group since 2016. Given the long-term cooperation relationship with the Chens' Associates, they are familiar with production specification and requirements of the Group and are able to respond to the production demand both in terms of production processes and ability to secure raw materials in shorter timeframe compared to other third-party manufacturers. Therefore, Liby Group is able to provide more reliable products and stable services to the Group, which is essential for the continued operation and growth of the Group's business.

Given the above, in particular the flexibility in the Group's production planning, the long-term cooperation relationship and our analysis on the major terms of the New Outsourcing Framework Agreement (as elaborated below), we concur with the view of the Board that the entering into the New Outsourcing Framework Agreement falls within the ordinary and usual course of business of the Group and is in the interests of the Company and Shareholders as a whole.

4. New Sales Framework Agreement

4.1 Principal terms of the New Sales Framework Agreement

Set out below is the summary of principal terms and pricing policy of the New Sales Framework Agreement

Date:	23 November 2023 (after trading hours)
Parties:	(i) The Company (for itself and on behalf of its subsidiaries); and (ii) Mr. KX Chen and Mr. KC Chen (for themselves and on behalf of their associates)
Duration:	1 January 2024 to 31 December 2026
Subject matter:	The Group agreed to sell its products to Chens' Associates in the ordinary course of business, such products including but not limited to, its (i) household care products (e.g. household insecticides and repellents, household cleaning products and air care products), (ii) personal care products, and (iii) pet products.
Price determination:	The Group prices its sales to Chens' Associates based on a reasonable margin around 40%. In particular, in order to maintain a reasonable retail price for the Group's products, the Group would also take into account, (1) the direct or indirect costs (including but not limited to logistics and distribution costs, salary and wages, information fees, display fees and annual maintenance fees) incurred by Chens' Associates in dealing with key accounts and other customers (if applicable); and (2) with reference to the margins for products of comparable quality, specifications, and quantities charged by Independent Third Party distributors that mainly deal with key accounts. The Group provides recommended retail price for the customers of Chens' Associates, such as key accounts. The margin charged by the Group on Chen's Associates is comparable to that of Independent Third Party distributors.

Additional fees shall be jointly confirmed by both parties, and shall be determined based on the fees charged by other Independent Third Parties for similar products and the prices of similar products in the market. The fees shall not exceed the standard fees specified by the relevant regulatory authorities (if applicable).

Transaction principles:	Both parties shall agree on the payment price for individual agreements as and when required based on the principles of fairness, reasonableness, and commercial practice. All transactions between the parties shall be conducted on general commercial terms as part of their regular business. The Group does not generally set minimum purchase requirement or sales target for Chens' Associates, and the Group do not provide any incentive scheme for them. The Group will provide a monthly invoice to Chens' Associates, and they shall make payment via wire transfer within 45 days upon receiving the relevant invoice.

We have reviewed the New Sales Framework Agreement. Other than the effective date, all other terms of the Sales Framework Agreement shall remain the same and in full force and effect. Accordingly, the terms under the New Sales Framework Agreement remain principally the same as those of the Sales Framework Agreement.

In assessing whether the terms of the New Sales Framework Agreement are fair and reasonable, we have been provided by the Company with, from a complete listing for the corresponding year or period and have selected on a random basis and obtained and reviewed 15 samples including sales contracts and invoices entered into between the Group and the independent customers for the sales of products from FY2021 to 1H2023 ("**Independent Sales Samples**"). For comparison purpose, we have also obtained and reviewed 15 samples including sales contracts and invoices entered into between the Group and Liby Group for sales of similar products from FY2021 to 1H2023 under the Sales Framework Agreement ("**Liby Sales Samples**"). Given the Independent Sales Samples and Liby Sales Samples cover (i) eight different products; (ii) each year of the contractual period under the Sales Framework Agreement; and (iii) the sales to 15 independent customers, we consider Independent Sales Samples and Liby Sales Samples to be fair and representative.

Based on our review of the Independent Sales Samples and Liby Sales Samples, we noted that (i) the delivery term is the same such that the Group shall be responsible for delivery the products to Liby Group and the independent customers;

(ii) credit period offered to Liby Group is 45 days which is within the range of five to 60 days offered to Independent Sales Samples and other independent customers as stated in the 2022 Annual Report; and (iii) the unit price of product sold to Liby Group are higher than or within the range of the unit price of product sold to the independent customers.

As stated in the letter from the Board, gross profit margin of the sales to Liby Group is around 40%. Based on page 13 of the 2021 Annual Report, gross profit margin of sales to Liby Group was 41.2% which was within the range of 21.8% to 60.0% for different sales channels and was comparable to other offline distributors. Furthermore, as stated on page 11 of the 2022 Annual Report, gross profit margin of offline channels was 38.7% which was lower to that of sales to Liby Group. As such, we consider the gross profit margin of around 40% is reasonable.

Based on review as stated above, we consider the terms of Liby Sales Samples under Sales Framework Agreement are no less favorable to the Group than those of Independent Sales Samples and are on normal commercial terms which are fair and reasonable.

Given that terms of the New Sales Framework Agreement are generally consistent with the Sales Framework Agreement, we consider that the terms of New Sales Framework Agreement to be on normal commercial terms which are fair and reasonable.

4.2 The Proposed Caps and the basis of determination

Set out below are (i) the actual transaction amounts under Sales Framework Agreement for each of FY2021, FY2022 and 1H2023; (ii) the Proposed Caps under the New Sales Framework Agreement for each of three years ending 31 December 2026 and (iii) the relevant utilisation rate of Existing Caps:

	FY2021	**FY2022**	**1H2023**
	RMB'000	*RMB'000*	*RMB'000*
Actual transaction amounts	270,427	199,064	145,535 *(Note)*
Existing Caps	437,700	512,000	639,800
Utilisation rate	61.8%	38.9%	22.7% *(Note)*

	For the year ending 31 December		
	2024	**2025**	**2026**
	RMB'000	*RMB'000*	*RMB'000*
Proposed Caps	224,100	257,700	296,400

Note: The historical transaction amounts and utilisation rate are for 1H2023 only. For illustration purposes only, the annualised actual transaction amount would be approximately RMB291.1 million, which represented an annualised utilisation rate of approximately 45.5% for the year ending 31 December 2023.

As set out in the table above, for each of the FY2021, FY2022 and 1H2023, the historical actual transaction amounts under Sales Framework Agreement amounted to approximately RMB270.4 million, RMB199.1 million and RMB145.5 million, respectively, representing approximately 15.3%, 13.8% and 12.8% of the Group's revenue of the respective financial year or period. The respective utilisation rate for the annual caps for FY2021, FY2022 and 1H2023 are approximately 61.8%, 38.9% and 22.7%, respectively. Should the historical actual transaction amount for the 1H2023 be annualised, the projected transaction amount of the Sales Framework Agreement would amount to approximately RMB291.1 million, representing an annualised utilisation rate of approximately 45.5%.

The FY2022 witnessed a considerable decline in actual transaction amounts, showing a significant reduction of approximately 26.4%. Simultaneously, the utilisation rate experienced a significant drop of 22.9 percentage points. Based on our review of 2022 Annual Report, we noted a consistent decreasing trend in overall revenue, marking an 18.5% decrease. Specifically, revenue from offline channels in which Liby Group was a major customer demonstrated a substantial decrease of 29.6%. The decline in revenue and the low utilisation rates in FY2022 was largely a consequence of the control and prevention measures implemented in response to the challenges posed by the COVID-19 pandemic in 2022. These measures resulted in temporary suspension of operations in shopping malls and a significant decline in passenger flow at retail terminals, causing some shopping malls and supermarkets to experience losses and closures. Since the relaxation of COVID-19 measures at the end of 2022, the annualised utilisation rate for the year ending 31 December 2023 has improved to 45.5% from 38.9% in FY2022 but did not return to the level of 61.8% in FY2021. The relatively low annualised utilisation rate for the year ending 31 December 2023 was due to a slower-than-expected market recovery. According to the National Bureau of Statistics of China, the national economy continued to recover in the third quarter. However, the PRC's economy grew by 4.9% in the third quarter from a year earlier, which is down from 6.3% growth in the second quarter of the year, indicating a slower pace of economic recovery in the third quarter of 2023.

As disclosed in the letter from the Board, the Proposed Caps were determined with reference to the following:

(i) historical transaction amounts of payment received by the Group under the Sales Framework Agreement for the sales of their products which amounted to approximately RMB270.4 million, RMB199.1 million and RMB145.5 million for the two years ended 31 December 2022 and the six months ended 30 June 2023, respectively; and the percentage of revenue generated from Liby Group in proportion to the total revenue of the Group, which accounted for approximately 15.3%, 13.8% and 12.8% of the Group's total revenue for the two years ended 31 December 2022 and the six months ended 30 June 2023, respectively;

(ii) the potential revenue to be generated from Chens' Associates for the sales of the Group's products. In particular, while the Group did not enter into any sales with any Chens' Associates save as the Liby Group under the Sales Framework Agreement, the Group would like to explore new potential business opportunities and sales channels by cooperating with other Chens' Associates besides the Liby Group, with an aim to leverage on the business network of the other Chens' Associates, and also maintain the longstanding business relationship with Liby Group. Nonetheless, as at the Latest Practicable Date, the Group has yet to formulate any concrete sales plan with any of the Chens' Associates other than the Liby Group, and the Group expects that the sales to the Chens' Associates under the New Sales Framework Agreement for the three years ending 31 December 2026 will still mainly comprise of sales of products to Liby Group; and

(iii) the projected sales volume for the three years ending 31 December 2026, in particular, an expected annual growth rate of approximately 10% to 15% in terms of sales amount, after taking into account the anticipated growth across the Group customer base through their continuous product upgrade and increasing consumer awareness towards household and personal care since COVID-19 pandemic.

In order to assess the fairness and reasonableness of the Proposed Caps for the New Sales Framework Agreement, we have taken into consideration the followings:

(i) Gradual Recovery of the Economy from the COVID-19 Pandemic

According to the National Bureau of Statistics of China, China's GDP grew 5.5% year-over-year in the first half of 2023, posting a steady economic rebound. Although the GDP growth in the third quarter slowed down compared to that in the second quarter, the economy grew by 4.9%, which is higher than analysts' expectation in a Reuters poll for a 4.4% increase. The recovery momentum suggests the government's full year 2023 growth target of around 5.0% is likely to be achieved. In July 2023, the PRC government introduced the Measures for Restoring and Expanding Consumption (《關於恢復和擴大消費的措施》) (the "**Measures**"). These measures involve 20 specific strategies focusing on stabilising bulk consumption, expanding service consumption, promoting rural consumption, diversifying consumption methods, improving consumption facilities, and enhancing the overall consumption environment. The goal is to speed up the establishment of a new development pattern, concentrate on high-quality development, prioritise the revival and enlargement of consumption, optimise employment, income distribution, and consumption processes, thereby boosting a healthy cycle. This includes strengthening spending capacity, refining consumption conditions, innovating in consumption experiences, leveraging the advantages of a vast market, facilitating economic circulation, unlocking consumption potential, and better catering to the public's need for a high-quality life. Considering the above, we concur with the Management's anticipation that the economy in the PRC will recover gradually from the COVID-19 pandemic. The projected transaction amounts between the Group and Liby Group for the three years ending 31 December 2026 will therefore gradually increase and return to the level of 2021.

(ii) Downward Adaptation of Anticipated Transaction Amounts Amid Economic Slowdown and Pandemic Recovery

Given the historically low utilisation rates for FY2021 and FY2022, as well as the annualised rate for the year ending 31 December 2023, the Management has incorporated past transaction data during the economic downturn caused by the COVID-19 pandemic. After considering the slowdown in economic recovery, specifically in the third quarter of 2023, the Management has deemed it both reasonable and prudent to reduce the Proposed Cap for the year ending 31 December 2024, to RMB224.1 million. This reflects a substantial decrease of about 65.0% from the FY2023 Existing Cap of RMB639.8 million and approximately 23.0% lower than the annualised transaction amount of RMB291.1 million for the year ending 31 December 2023. We believe that this downward adjustment in the Proposed Cap for the year ending 31 December 2024 fairly reflects the recent reduced market confidence and careful consumer spending. As per China's National Bureau of Statistics, retail sales growth slowed to 2.5% in July 2023, increasing to 5.5% in September 2023. However, this growth remains sluggish compared to earlier months in the first half of 2023 which recorded more than 10% retail sales growth. Considering these factors, we concur with the Management that the downward adjustment for the Proposed Cap for the year ending 31 December 2024 is both prudent and reasonable.

(iii) Growth from Expansion of Distribution Channels and Product Offerings

Chens' Associates, in particular Liby Group, maintains an extensive distribution network. The Sales Framework Agreement has granted the Group access to around 48 key accounts covering approximately 11,000 points-of-sales as at 31 December 2021 and the Group has leveraged this network for over seven years. The 2023 Interim Report outlines that the Group intent to further expand and develop offline channels in the future. As advised by the Management, through the extensive distribution network of Liby Group, the Group planned to (i) expand sales channels in membership-only warehouse club and home-delivery business from stores in communities; and (ii) strengthen the sales channels in convenience stores and schools. We have reviewed the list of key accounts of the Liby Group and noted these new types of sales channels were not included in the existing key accounts and are of the view that accessing these diverse sales channels increases the visibility of the Group's products, potentially reaching a wider customer base. In addition, we understood from the Management that the Group has continued to improve and expand product offerings in order to meet consumer demand resulting from increasing awareness in household and personal care, hygiene and healthy lifestyle. As stated in the letter from the Board, a total of no less than 500 products have been newly launched and upgraded from 2021 to 2023. The Management expected that no less than 300 products would be launched and upgraded from 2024 to 2026. We are of the view that launching new and upgraded products not only help the Group penetrate new market segments but also diversified the Group's product lines, potentially attracting a broad customer base with varying needs and preferences. Diversification also reduces risk associated with dependence on a limited product range and makes the business more resilient to market changes.

(iv) Reasonable Growth Rate in the Proposed Caps

As stated in the Prospectus and 2021 Annual Report, the historical actual transaction amounts between the Group and Liby Group experienced an increase from RMB220.9 million for the year ended December 31, 2017, to RMB358.1 million for the year ended December 31, 2020, representing a CAGR of 17.5%. The Management considered that the historical actual transaction amounts in FY2021 and FY2022 were understated due to the impact of COVID-19 pandemic. Comparatively, the projected growth rates of Proposed Caps for the years ending 31 December 2025, and 2026 show a 15.0% year-on-year increase, closely in line with the earlier but still lower than the previous CAGR of 17.5%. In assessing the fairness and reasonableness of the growth rate, we have considered the following: (a) the positive government policy to restore and expand consumptions as mentioned in paragraph (i) above; (b) the Company has factored in the slowdown in economic recovery by upfront adjusting downwards the Proposed Cap for the year ending 31 December 2024 as mentioned in paragraph (ii) above such that it would take the Company around three years to slowly return to pre-COVID 19 level; and (c) the Company's sales channels and products expansion plan in the PRC as mentioned in paragraph (iii) above, which is expected to increase exposure of the Group's product to attract a wider customer base and, in turn, drive up the demand for the Group's products. In light of the above, we concur with the Management that the growth rates used to determine the Proposed Caps for 2025 and 2026 are deemed reasonable.

Based on the above, we are of the view that the basis and assumptions used by the Management in determining the Proposed Caps for the New Sales Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

5. New Outsourcing Framework Agreement

5.1 Principal terms of the New Outsourcing Framework Agreement

Set out below is the summary of principal terms and pricing policy of the New Outsourcing Framework Agreement:

Date: 23 November 2023 (after trading hours)

Parties:
(i) The Company (for itself and on behalf of its subsidiaries); and

(ii) Mr. KX. Chen and Mr. KC Chen (for themselves and on behalf of its associates)

Duration:	1 January 2024 to 31 December 2026
Subject matter:	The Group agreed to outsource the production of certain products, including but not limited to, disinfectants, toilet cleaners, kitchen cleaners, soaps and other personal care and household cleaning products, to Chens' Associates in the ordinary course of business.
Price determination:	The purchase price payable by the Group to the Chens' Associates shall be determined with reference to the production costs of the relevant products plus a profit margin determined through arm's length negotiation with reference to comparable profit margin of independent third party manufacturers in the same industry, which the Group obtained from Independent Third Party manufactures in their daily operations. The Group would run a price quote process to check price quotes from one to three Independent Third Party qualified suppliers for the products of same specification and quality. Provided that both the Chens' Associates and Independent Third Party suppliers are able to deliver products of similar quality within the Group's specified timeframe, if a lower price exists, the Group would either engage Independent Third Party supplier to carry out the work or negotiate with the Connected Suppliers for price adjustments accordingly.
Transaction principle:	The parties will enter into separate business agreements which will set out specific terms and services to be provided according to the New Outsourcing Framework Agreement. The Chens' Associates will provide a monthly invoice to the Group, and the Group shall make payment via wire transfer within 45 days from the first day of each month.

We have reviewed the New Outsourcing Framework Agreement. Other than the effective date, all other terms of the Outsourcing Framework Agreement shall remain the same and in full force and effect. Accordingly, the terms under the New Outsourcing Framework Agreement remain principally the same as those of the Outsourcing Framework Agreement.

In assessing whether the terms of New Outsourcing Framework Agreement are fair and reasonable, we have been provided by the Company with, and have selected on a random basis from a complete listing for the corresponding year or period and obtained and reviewed 15 samples including purchase contracts and invoices entered into between the Group and the independent suppliers ("**Independent Outsourcing Samples**") for provision of outsourcing manufacturing of products from FY2021 to 1H2023. For comparison purpose, we have also obtained and reviewed 15 samples including purchase contracts and invoices entered into between the Group and Chens' Associates for the provision of outsourcing manufacturing of similar product from FY2021 to 1H2023 under the Outsourcing Framework Agreement ("**Chens Outsourcing Samples**"). Given the Independent Outsourcing Samples and Chens Outsourcing Samples cover (i) seven types of products; (ii) each year of contractual period under the Outsourcing Framework Agreement; and (iii) the outsourcing services purchased from six independent suppliers, we consider the Independent Outsourcing Samples and Chens Outsourcing Samples to be fair and representative.

Based on our review of the Independent Outsourcing Samples and the Chens Outsourcing Samples, we noted that (i) the delivery term is the same such that the Chens' Associates and independent suppliers shall be responsible for delivery; (ii) credit period offered by Chens' Associates is 45 days, which was longer than that offered by independent suppliers for Independent Outsourcing Samples but within the range of 20 to 60 days as stated in the 2022 Annual Report. In respect of the outsourcing cost, as advised by the Management and stated on the purchase contracts of Independent Outsourcing Samples, the outsourcing cost offered by the independent suppliers is mainly related to the processing fee and small amount of raw material costs as the Group supplies most of the raw materials to the independent suppliers. On the other hand, the outsourcing cost offered by Chens' Associates includes raw material costs and processing fee as Chens' Associates procure raw materials on their own. In order to have a better comparison, we obtained the cost of raw materials supplied by the Group to the independent suppliers for Independent Outsourcing Samples and recalculated the total production cost per unit for each product. We noted that the total cost per unit incurred from the independent suppliers is higher than or comparable to the total cost per unit incurred from Chens' Associates.

Based on our review as stated above, we consider the terms of samples under Outsourcing Framework Agreement are no less favorable to the Group than those of the Independent Outsourcing Contracts and are on normal commercial terms which are fair and reasonable.

Given that the terms of the New Outsourcing Framework Agreement are generally consistent with Outsourcing Framework Agreement, we consider that the terms of New Outsourcing Framework Agreement to be on normal commercial terms which are fair and reasonable.

5.2 The Proposed Caps and the basis of determination

Set out below are (i) the actual transaction amounts under Outsourcing Framework Agreement for each of FY2021, FY2022 and 1H2023; (ii) the Proposed Caps under the New Outsourcing Framework Agreement for each of three years ending 31 December 2026 and (iii) the relevant utilisation rate of Existing Caps:

	FY2021	**FY2022**	**1H2023**
	RMB'000	*RMB'000*	*RMB'000*
Actual transaction amounts	174,199	152,952	68,513 *(Note)*
Existing Caps	279,900	337,500	410,100
Utilisation rate	62.2%	45.3%	16.7% *(Note)*

	For the year ending 31 December		
	2024	**2025**	**2026**
	RMB'000	*RMB'000*	*RMB'000*
Proposed Caps	172,600	193,300	216,500

Note: The historical transaction amounts and utilisation rate are for 1H2023. For illustration purposes only, the annualised actual transaction amount would be approximately RMB137.0 million, which represented an annualised utilisation rate of approximately 33.4% for the year ending 31 December 2023.

As set out in the table above, for each of the FY2021, FY2022 and 1H2023, the historical actual transaction amounts under Outsourcing Framework Agreement amounted to approximately RMB174.2 million, RMB153.0 million and RMB68.5 million, respectively. The respective utilisation rate for the annual caps for FY2021, FY2022 and 1H2023 are approximately 62.2%, 45.3% and 16.7%, respectively. Should the historical actual transaction amount for the 1H2023 be annualised, the projected transaction amount of the Outsourcing Framework Agreement would amount to approximately RMB137.0 million, representing an annualised utilisation rate of approximately 33.4%.

The FY2022 witnessed a considerable decline in actual transaction amounts, showing a reduction of approximately 12.2%. Simultaneously, the utilisation rate experienced a significant drop of 16.9 percentage points. Based on our review of the 2022 Annual Report and our discussions with the Management, we noted a consistent decreasing trend in overall sales and cost of sales, marking a 18.5% and 14.2% decrease, respectively. Such decline and the low utilisation rate in FY2022 were primarily attributable to the stringent control and prevention measures implemented during the resurgence of the COVID-19 pandemic in 2022, which resulted in reduced demand for products and, thereby, the corresponding outsourcing cost. However, the actual transaction amounts experienced a moderate decline of 12.2%, which was notably less severe in comparison to the overall reduction in sales and cost of sales. This milder impact was primarily observed because the products outsourced to Chens' Associates for production primarily belonged to the household care category.

According to our review of the 2022 Annual Report and discussions held with the Management, the household care category exhibited exceptional resilience in 2022, demonstrating the most consistent profitability among all other product categories. The trend likely stemmed from (i) the increased awareness and significance of household care during the resurgence of the COVID-19 pandemic, serving as a preventive measure against contracting the virus; and (ii) the launch of a high-end household cleaners series in 2022, characterised by their efficiency, utilisation of healthy ingredients, and a focus on addressing customers' needs.

Looking ahead to the annualised utilisation rate for the year ending 31 December 2023, the transaction amounts and the utilisation rates are expected to further reduce despite the lifting of the stringent prevention measures in 2023. The further decline was primarily due to (i) the slower-than-expected recovery; and (ii) reduced volume outsourced to Chens' Associates as a result of engagement of other Independent Third Party suppliers to provide outsourcing services for similar products. Prior to the entering into outsourcing engagements, the Company routinely compares the costs of various suppliers to ensure that the selected suppliers offer more competitive pricing. This approach has effectively contributed to overall cost savings in production for the Group.

As disclosed in the letter from the Board, the Proposed Caps were determined with reference to the following:

(i) the historical amount of payments paid by the Group for the procurement of the products and the percentage of outsourcing costs incurred from purchasing from the Chens' Associates in proportion to the Group's total outsourcing costs; and

(ii) the expected demand for the Group's products for the three years ending 31 December 2026 based on the anticipated expansion of the Group's business through the Group's continuous product upgrade and due to consumer awareness towards household and personal care since COVID-19 pandemic. From 2021 to 2023, a total of no less than 500 products were newly launched and upgraded by the Group, and it is anticipated that no less than 300 products will be launched and upgraded by the Group from 2024 to 2026. By diversifying the Group's overall product portfolio, it will also broaden the product lines of the Group. Therefore, besides outsourcing the production of certain existing products to the Chens' Associates, the Group would not rule out the possibility of further collaborating with the Chens' Associates for production of the newly launched and upgraded products, hence, it is expected that the Group's demand of outsourcing services from the Chens' Associates for product manufacturing would increase accordingly.

In order to assess the fairness and reasonableness of the Proposed Caps for the New Sales Framework Agreement, we have taken into consideration the followings:

(i) Increasing Outsourcing Demand to Fulfill the Growth Expectation of the Group's Products

The Group has outsourced the production of certain household care products, such as disinfectants, toilet cleaners, kitchen cleaners, insecticides and repellents to Chens' Associates. As stated in the 2023 Interim Report, the revenue generated from household care products demonstrated a steady increase of 10.8% from RMB942.0 million for 1H2022 to RMB1,043.9 million for 1H2023 as a result of recovery from COVID-19 pandemic. In order to capture the growing consumers demand and maintain product competitiveness, the Group has implemented the multi-brand, multi-category and full-channel strategies by innovating new products, upgrading existing products and developing and expanding omni-channel sales and distributions network. As stated in the letter from the Board, a total of no less than 500 products have been newly launched and upgraded from 2021 to 2023. The Management expected that no less than 300 products would be launched and upgraded from 2024 to 2026.

Furthermore, the Group's sales network covers all provinces, all prefecture level cities and a majority of country-level cities of the country and penetrates tier one to tier five cities. Liby Group is one of the leading manufacturers in household care and personal care products and the largest supplier of the Group. Based on the public information, Liby Group has eight production sites located in Guangzhou, Henan, Jilin, Tianjin, Kunming, Sichuan and Anhui. The close proximity of Chens' Associates' nationwide production facilities to the end sales markets represents a geographical advantage, enhancing cost efficiency by minimising transportation and logistics expenses for the Group. Given (i) the gradual economy recovery from COVID-19 pandemic; (ii) launch of new products and upgrade of existing products; (iii) expansion of sales channels and (iv) large scale of production network of Chens' Associates across the country, the Group expected that the outsourcing demand for Chens' Associates would increase.

(ii) Downward Adaptation of Anticipated Transaction Amounts Amid Economic slowdown and Pandemic Recovery

Given the historically low utilisation rate in FY2021 and FY2022, as well as the annualised rate for the year ending 31 December 2023, the management has incorporated past transaction data during the economic downturn caused by the COVID-19 pandemic. After considering the slowdown in economic recovery and in line with the Proposed Caps for New Sales Framework Agreement, the Management considered it reasonable and prudent to significantly lower the Proposed Cap for the year ending 31 December 2024 to RMB172.6 million. This reflects a substantial decrease of about 57.9% from the Existing Cap of RMB410.1 million for the year ending 31 December 2023 but approximately 26.0% increase from the annualised transaction amount of RMB137.0 million for the year ending 31 December 2023. With the introduction of new products and the enhancement of existing products in 2024, primarily within the category of household care, it is reasonable to anticipate a rise in outsourcing transactions with Chens' Associates.

(iii) Reasonable Growth rate in Proposed Caps

As disclosed in the Prospectus, historical transaction amounts between the Group and Chens' Associates increased from RMB171.1 million for the year ended 31 December 2017 to RMB232.6 million for the year ended 31 December 2020, with a CAGR of 10.8%. Moreover, to allow the Group to respond promptly to the possible changes in market conditions and consumers demand, it would be in the interest of the Company that the Proposed Caps can provide sufficient flexibility to the Group to adjust the product mix. In this relation, the annual caps for the two years ending 31 December 2026 are estimated based on a 12% annual incremental increase.

Further, under the New Outsourcing Framework Agreement, the outsourcing cost incurred from Chens' Associates are determined with reference to the production costs of the relevant products, along with a profit margin. We have conducted a desk-top research to understand the price of raw material. According to the China Commodity Price Index (中國大宗商品價格指數) published by the Ministry of Commerce of The People's Republic of China, the commodity price index from 23 October 2023 to 29 October 2023 stood at 185, representing an increase of 0.7% compared to the beginning of this year. Considering the CAGR of historical transaction amounts between the Group and Chens' Associates, as well as the increasing commodity prices, the growth rate applied to determine the Proposed Caps for the New Outsourcing Framework Agreement for the two years ending 31 December 2026 is regarded as reasonable.

Based on the above, we are of the view that the basis and assumptions used by the Management in determining the Proposed Caps for the New Outsourcing Framework Agreement are fair and reasonable.

6. Internal control measures

Internal control measures have been adopted by the Company regarding the Non-Exempt Continuing Connected Transactions. As disclosed in the letter from the Board, the Group has adopted a series of internal control measures in relation to the Non-Exempt Continuing Connected Transactions, details of which are set out below:

- the Group adopted policies to ensure compliance with the Listing Rules, including but not limited to internal control mechanisms to identify connected transactions;
- the Group organises training sessions for their Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong, in particular the relevant requirements in relation to continuing connected transactions under Chapter 14A of the Listing Rules;

- the senior management and relevant departments of the Group will review and assess whether the terms set forth in a specific transaction agreement are consistent with each of the continuing connected transaction agreements, no less favourable than those offered to or received from Independent Third Parties, and adhere to the respective pricing basis of the transactions by collating updated information on the prevailing market prices of the products or services from time to time. Market prices will be obtained through, among other things, recent transactions of the Group with Independent Third Parties, pricing information obtained through enquiry with other industry players and desk-top research on industry websites;

- specifically assigned personnel from the relevant departments of the Group will check and monitor the transaction amounts to ensure that the maximum transaction amounts would not exceed the relevant annual caps under the continuing connected transaction framework agreements, and the respective pricing basis and transaction principles as set out are complied with;

- the finance department of the Group will monitor the transaction amounts contemplated under each continuing connected transaction framework agreement on a regular basis. If the aggregate transaction amount reaches 90% of the relevant annual cap or is expected to exceed the relevant annual cap in the coming two months, the finance department of the Group must notify the Board as soon as practicable, and the Board shall determine the appropriate action to be taken;

- the internal audit department of the Group will assess the Group's continuing connected transactions in accordance with the relevant continuing connected transaction framework agreement in each financial year, to ensure that the pricing basis and internal control procedures are complied with;

- the independent non-executive Directors review the continuing connected transactions of the Company on a half-yearly basis to consider whether all of the continuing connected transactions of the Group are entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, or, if applicable, are conducted in accordance with the relevant pricing policies and on terms that are fair and reasonable and in the interests of the Company and Shareholders as a whole; and

- the auditors of the Company review the terms and annual caps of the continuing connected transactions contemplated under the relevant contracts on an annual basis.

In assessing whether the above internal control measures are put in place and effectively implemented, we have reviewed the Group's training materials in relation to the continuing connected transaction and noted that the Group has provided comprehensive training to the Director and senior management. In addition, we have reviewed the board resolutions and the independent non-executive Directors confirmed that the continuing connected transactions of the Group (i) were entered into in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; (iii) were conducted in accordance with agreement governing such transactions and on terms that were fair and reasonable and in the interests of the Company and Shareholders as a whole and (iv) did not exceed the annual caps.

We also noted from the 2021 Annual Report and 2022 Annual Report that, amongst other things, with respect to each of non-exempt continuing connected transaction contemplated under Sales Framework Agreement and Outsourcing Framework Agreement during the respective financial year, nothing has come to the Company's auditor and the independent non-executive Directors attention that causes them to believe that the non-exempt connected continuing transactions have exceeded the annual cap as set by the Company.

Having considered the above, we are of the view that adequate measures have been put in place to ensure and safeguard the Non-Exempt Continuing Connected Transactions to be conducted on normal commercial terms and not prejudicial the interests of the Company and the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the Non-Exempt Continuing Connected Transaction Agreements and the Proposed Caps are (i) in the ordinary and usual course of the business of the Group; (ii) on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend Independent Shareholders to vote in favor of the relevant resolution for approving the Non-Exempt Continuing Connected Transaction Agreements and the Proposed Caps at the EGM.

Yours faithfully,
For and on behalf of
Innovax Capital Limited
Alvin Kam **Erica Ling**
Managing Director *Director*

Note: Mr. Alvin Kam is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 20 years of experience in investment banking and corporate finance.

Ms. Erica Ling is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has around 12 years of experience in investment banking and corporate finance.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors and the chief executive of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise 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**") contained in Appendix 10 to the Listing Rules, are set out as follows:

Interests in the Shares

Name of Directors	Nature of Interest	Number of Shares held	Approximate percentage of shareholding(4)
Chen Danxia	Beneficial interest	3,993,500 (L)	0.30%
Xie Rusong(2)	Beneficial interest	780,500 (L)	0.06%
Zhong Xuyi(3)	Beneficial interest	300,000 (L)	0.02%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Mr. Xie Rusong holds 480,500 Shares and he is interested in 300,000 underlying Shares. Such underlying Shares are the relevant Shares that may be allotted and issued to him upon the fully exercise of all the outstanding share options granted to him under the Share Option Scheme as at the Latest Practicable Date.

(3) Mr. Zhong Xuyi is interested in 300,000 underlying Shares. Such underlying Shares are the relevant Shares that may be allotted and issued to him upon the fully exercise of all the outstanding share options granted to him under the Share Option Scheme as at the Latest Practicable Date.

(4) As at the Latest Practicable Date, the Company had 1,333,333,500 ordinary Shares in issue.

Save as disclosed above, as at the Latest Practicable Date, 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 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.

(b) Substantial shareholders and other persons

As at the Latest Practicable Date, 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 shareholders	Nature of Interest	Number of Shares held	Approximate percentage of shareholding[(4)]
Ms. Ma[(2)]	Interest of corporation controlled/Interest of spouse	990,000,000 (L)	74.25%
Ms. Li[(3)]	Interest of corporation controlled/Interest of spouse	990,000,000 (L)	74.25%
Mr. KX Chen[(3)]	Interest of corporation controlled/Interest of spouse	990,000,000 (L)	74.25%
Mr. KC Chen[(2)]	Interest of corporation controlled/Interest of spouse	990,000,000 (L)	74.25%
Cheerwin Global BVI[(4)]	Beneficial interest	990,000,000 (L)	74.25%

Notes:

(1) The letter “L” denotes the person’s long position in such shares.

(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 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 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 held by Cheerwin Global BVI pursuant to SFO.

(5) As at the Latest Practicable Date, the Company had 1,333,333,500 ordinary Shares in issue.

Save as disclosed above, as at the Latest Practicable Date, 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.

3. COMPETING BUSINESS

As at the Latest Practicable Date, the Directors are not aware that any of them or any of their close associates had interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group, or had or might have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

4. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement, which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2022, the date of which the latest published audited consolidated financial statements of the Company were made up.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract with the Company or any of its subsidiaries which does not expire or which is not determinable by the Company within a year without payment of any compensation, other than statutory compensation.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published audited accounts of the Group have been made up).

7. EXPERT AND CONSENT

The following sets out the qualifications of the expert who has given opinion or advice, which is contained in this circular:

Name	Qualification(s)
Innovax Capital	a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities

Innovax Capital has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, (i) Innovax Capital had no interest, either direct or indirect, in any assets which have been, since 31 December 2022, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) Innovax Capital had no shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate any persons to subscribe for securities of any members of the Group.

8. DOCUMENTS ON DISPLAY

A copy of each of the following documents will be published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.cheerwin.com) for a period of 14 days from the date of this circular:

(a) the Non-Exempt Continuing Connected Transaction Agreements;

(b) the letter from the Independent Board Committee dated 7 December 2023, the text of which is set out on pages 18 to 19 of this circular;

(c) the letter from Innovax Capital dated 7 December 2023, the text of which is set out on pages 20 to 41 of this circular;

(d) the written consent from Innovax Capital; and

(e) this circular.

Cheerwin Group Limited
朝雲集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6601)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting ("**EGM**") of Cheerwin Group Limited (the "**Company**") will be held at 5/F, North Podium Building, No. 2, Luju Road, Liwan District, Guangzhou, Guangdong Province, PRC on Friday, 29 December 2023 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the sales framework agreement dated 23 November 2023 ("**New Sales Framework Agreement**") (the copy of the New Sales Framework Agreement has been produced at the meeting marked "A" and signed by the chairman of the meeting for identification purpose), the terms and conditions thereof and the transactions contemplated thereunder, and the relevant proposed annual caps of the transactions contemplated under the New Sales Framework Agreement for the three years ending 31 December 2026 as shown in the Company's circular dated 7 December 2023 be and are hereby approved, confirmed and ratified; and

   (b) any one of the directors of the Company be and is hereby authorised to do all such acts and things and to sign and execute all such other documents or instrument for and on behalf of the Company (including the affixation of the common seal of the Company where required) as he/she may consider necessary, appropriate, expedient or desirable in connection with, or to give effect to, the New Sales Framework Agreement, and to implement the transactions contemplated thereunder and to agree to such variations, amendments or waivers of matters relating thereto that are of administrative nature and ancillary to the implementation of the New Sales Framework Agreement and any other transactions contemplated under or incidental to the New Sales Framework Agreement."

2. "**THAT**:

(a) the outsourcing framework agreement dated 23 November 2023 ("**New Outsourcing Framework Agreement**") (the copy of the New Outsourcing Framework Agreement has been produced at the meeting marked "B" and signed by the chairman of the meeting for identification purpose), the terms and conditions thereof and the transactions contemplated thereunder, and the relevant proposed annual caps of the transactions contemplated under the New Outsourcing Framework Agreement for the three years ending 31 December 2026 as shown in the Company's circular dated 7 December 2023 be and are hereby approved, confirmed and ratified; and

(b) any one of the directors of the Company be and is hereby authorised to do all such acts and things and to sign and execute all such other documents or instrument for and on behalf of the Company (including the affixation of the common seal of the Company where required) as he/she may consider necessary, appropriate, expedient or desirable in connection with, or to give effect to, the New Outsourcing Framework Agreement, and to implement the transactions contemplated thereunder and to agree to such variations, amendments or waivers of matters relating thereto that are of administrative nature and ancillary to the implementation of the New Outsourcing Framework Agreement and any other transactions contemplated under or incidental to the New Outsourcing Framework Agreement."

By order of the Board
Cheerwin Group Limited
Chen Danxia
Executive Director, Chairman and Chief Executive Officer

Hong Kong, 7 December 2023

Registered office:
Cricket Square, Hutchins Drive
PO Box 2681 Grand Cayman, KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
31/F, Tower Two, Times Square
1 Matheson Street, Causeway Bay
Hong Kong

Head office in the PRC:
No. 2, Luju Road
Liwan District
Guangzhou, Guangdong Province
China

Notes:

1. A Shareholder entitled to attend and vote at the above meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her; a proxy need not be a Shareholder of the Company.

2. In the case of joint holders of any share of the Company (the "**Share**"), the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the said persons so present whose name stands first on the register of members in respect of such Share shall alone be entitled to vote in respect thereof.

3. In order to be valid, a form of proxy must be deposited at the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a certified copy thereof) not less than 48 hours before the time appointed for the holding of the above meeting or any adjournment thereof. The completion and return of the form of proxy shall not preclude the Shareholders from attending and voting in person at the above meeting (or any adjourned meeting thereof) if they so wish and in such event the relevant form of proxy shall be deemed to be revoked.

4. The register of members of the Company will be closed from Friday, 22 December 2023 to Friday, 29 December 2023, both days inclusive, in order to determine the entitlement of the Shareholders to attend and vote at the above meeting, during which period no transfer of Shares will be registered. All transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 21 December 2023.

5. All resolutions at the EGM will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

6. References to time and dates in this notice are to Hong Kong time and dates.