

# China Golden Classic Group Limited 中國金典集團有限公司

( Incorporated in the Cayman Islands with limited liability )

Stock Code: 8281



Annual Report 2018

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# Corporate Information

## DIRECTORS

### Executive Directors

Ms. Li Qiuyan (*Chairman*)  
Mr. Tong Xing (*Chief Executive Officer*)  
Ms. Du Yongwei

### Independent Non-executive Directors

Mr. Ye Jingzhong  
Mr. Qian Zaiyang  
Mr. Tang Wai Yau

## AUDIT COMMITTEE

Mr. Tang Wai Yau (*Chairman*)  
Mr. Ye Jingzhong  
Mr. Qian Zaiyang

## REMUNERATION COMMITTEE

Mr. Ye Jingzhong (*Chairman*)  
Mr. Qian Zaiyang  
Ms. Li Qiuyan

## NOMINATION COMMITTEE

Ms. Li Qiuyan (*Chairman*)  
Mr. Ye Jingzhong  
Mr. Qian Zaiyang

## COMPLIANCE OFFICER

Ms. Li Qiuyan

## JOINT COMPANY SECRETARIES

Mr. Xiang Dongliang  
Mr. Raymond Chi Ho Wong

## AUDITORS

SHINEWING (HK) CPA Limited

## LEGAL ADVISER AS TO HONG KONG LAWS

Wong, Wan & Partners (in association with Seyfarth Shaw)

## COMPLIANCE ADVISER

First Shanghai Capital Limited

## PRINCIPAL BANK

Jiangyin Rural Commercial Bank Co., Limited  
Yaosai Sub-branch

## REGISTERED OFFICE

PO Box 1350  
Clifton House  
75 Fort Street  
Grand Cayman KY1-1108  
Cayman Islands

## HEAD OFFICE IN THE PRC

No. 35 Yingbin Road  
Xiake Town, Jiangyin City  
Jiangsu Province, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat B, 19/F, Times Media Centre  
133 Wan Chai Road  
Wan Chai  
Hong Kong

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited  
PO Box 1350  
Clifton House  
Grand Cayman KY1-1108  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## COMPANY WEBSITE

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

## STOCK CODE

8281

# Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Golden Classic Group Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to present our annual report for the year ended 31 December 2018 (the "Year").

## BUSINESS REVIEW

The year 2018 was a challenging year for the Group and the management team who are dedicated to creating value for the shareholders of the Company (the "Shareholders"). The challenges facing the Group originated from economic issues external to the Group such as the decreasing domestic demand growth in the People's Republic of China (the "PRC" or "China") as China's economic growth has slowed down in 2018 and the competition in the domestic market has been fierce. The management team is committed to cope with these challenges by maintaining a diversified and innovative product portfolio to attract new customers. Revenue of the Group increased by approximately 3.4% from approximately RMB267.4 million for the year ended 31 December 2017 to approximately RMB276.6 million for the Year. Gross profit of the Group decreased by approximately 12.6% from approximately RMB122.1 million for the year ended 31 December 2017 to approximately RMB106.7 million for the Year. The decrease was mainly attributable to both the depreciation for the new production facilities put into use and the temporary reduction of selling price due to the sales promotion activities during the Year.

The Group generated a profit of approximately RMB1.6 million for the Year which represents a decrease of approximately 41% as compared with the profit of approximately RMB2.7 million for the year ended 31 December 2017. The decrease was mainly attributable to both the depreciation for the new production facilities put into use and the temporary reduction of selling price due to the sales promotion activities during the Year, which lowered the selling price of our products.

## PROSPECTS

The economic outlook for 2019 remains uncertain and challenging. Competition in the domestic fast-moving consumer goods market is expected to be fierce. Our management team will face all of these challenges head on as part of our Group's growth process.

The Directors continue to take a step forward in the oral care industry and further expand the Group's business operations with a view to creating Shareholders' value. The Group has started the renovation of the production facilities on producing the FE Enzyme and functional cosmetics in its production base in Jiangyin, Jiangsu Province, PRC. This will reduce the cost of our toothpaste and expand the product lines. The directors believe that the Group's products' competitiveness can be further strengthened. In addition, the Group is determined to spare no effort in enhancing electronic commerce and the WeChat business.

What deserves to be mentioned is that the government will make further effort to alleviate the burden on enterprises. The directors believe that it will improve the results of the group.

## Chairman's Statement (Continued)

### APPRECIATION

Finally, I would like to extend, on China Golden Classic Group Limited's behalf, my heartfelt gratitude to the Shareholders, members of the Board, management, staff, customers and business partners of the Group for their continuing support and confidence in the Company.

**Ms. Li Qiuyan**

*Chairman and Executive Director*

Hong Kong, 28 March 2019

# Management Discussion and Analysis

## BUSINESS REVIEW

During the Year and up to the date of this report, the Group had been principally engaged in the manufacturing and trading of oral care, leather care and household hygiene products in China and overseas.

### Business Review

For the Year, the Group recorded a turnover of approximately RMB276.6million, increased by approximately 3.4% as compared to the last corresponding period. The net profit for the Year was approximately RMB1.6 million, decreased by approximately 41% compared to the same period in last year. Net profit margin was approximately 0.6%, representing a decrease of approximately 0.4% as compared to the same period last year (2017: 1.0%).

The decrease in the amount of the net profit for the Year was mainly attributable to the temporary reduction of the selling price of the Group's products during the year and the depreciation for the new production facilities put into use in February 2018. On the other hand, the Group's overall gross profit margin decreased from approximately 45.7% for the year ended 31 December 2017 to approximately 38.6% for the Year. The decrease in gross profit margin, especially in our oral care products, was mainly due to the depreciation for the new production facilities put into use in February 2018.

## FINANCIAL REVIEW

### Turnover

Turnover of the Group increased by approximately 3.4% from approximately RMB267.4 million for the year ended 31 December 2017 to approximately RMB276.6 million for the Year. The increase in the Group's total turnover was mainly attributed to the increased turnover of household hygiene products by approximately RMB6.4 million or 7.4%, from approximately RMB86.4 million for the year ended 31 December 2017 to approximately RMB92.8 million for the Year. Such increase was mainly due to the promotion of household hygiene products we strengthened in the past year including the improvement in packaging and display of the products.

Turnover of our oral care products recorded an increase of approximately RMB4.0 million or 2.6%, from approximately RMB148.5 million for the year ended 31 December 2017 to approximately RMB152.5 million for the Year. The increase was mainly due to the growth of e-commerce, which strengthened our online sales in 2018.

Turnover of our leather care products slightly decreased by approximately RMB1.2 million or 3.8%, from approximately RMB32.5 million for the year ended 31 December 2017 to approximately RMB31.3 million for the Year. Such decrease was mainly due to the reduction of the selling price of our leather care products to become more competitive in the shrinking leather care products market during the Year.

### Cost of sales

Cost of sales increased from approximately RMB145.3 million for the last corresponding period to approximately RMB169.9 million for the Year, showing an increase of approximately 16.9%. The change was mainly due to the depreciation for the new production facilities put into use in February 2018.



## Management Discussion and Analysis (Continued)

### Gross profit and gross profit margin

Gross profit of the Group decreased by approximately 12.6% from approximately RMB122.1 million for the year ended 31 December 2017 to approximately RMB106.7million for the Year. The decrease was mainly attributable to the depreciation of the new production facilities put into use in February 2018.

In addition, our gross profit margin decreased by 7.1% from approximately 45.7% for the year ended 31 December 2017 to approximately 38.6% for the Year. The decrease was mainly attributable to both the depreciation of the new production facilities put into use and the temporary reduction of selling price due to the sales promotion activities during the Year, which lowered the selling price of our products.

### Selling and distribution costs

Selling and distribution costs decreased by approximately RMB19.4 million or 24.7% from approximately RMB78.7 million for the year ended 31 December 2017 to approximately RMB59.3 million for the Year. The decrease was mainly attributable to the Group's tightening of overall costs in sales personnel and advertising and promotion costs during the corresponding year.

### Administrative expenses

Administrative expenses incurred for the Year was approximately RMB44.0 million, representing an increase of approximately RMB4.7 million or approximately 12%, as compared to approximately RMB39.3 million for the year ended 31 December 2017. Such increase was primarily because the Group improved the managements compensation and working environment to motivate the enthusiasm of the staff, such as improving the quality of employees' meals, and establishing a new activity center for employees.

### Finance costs

Finance costs incurred for the Year which mainly represent interest expenses, was approximately RMB2.7 million, increased by approximately RMB0.1 million as compared to RMB2.6 million in the year ended 31 December 2017, representing a slight increase of approximately 3.8%. The increase was mainly attributable to the increase in the average balance of the interest-bearing loans during the Year as compared to the same period of 2017. The increase in interest-bearing loans was to increase the liquidity of the Company.

### Income tax expenses

Income tax expenses incurred for the Year was approximately RMB2.5 million, decreased by approximately RMB0.9 million as compared to RMB3.4 million for the year ended 31 December 2017, representing a decrease of approximately 0.26%. It was mainly attributable to the decrease of the profit before taxation as compared to the same period of 2017. On the other hand, there was a withholding tax on dividend of approximately RMB1.1 million during the Year (2017: 1.8 million). The effective tax rate was increased to approximately 60%, representing an increase of approximately 4.3% as compared to the same period of 2017 (2017: approximately 55.7%), which is mainly driven by the incurring of the withholding tax on dividend during the Year.

### Profit for the year

As a result of the foregoing, our net profit for the Year was approximately RMB1.6 million which represents a decrease of approximately 41% as compared with the profit of approximately RMB2.7million for the year ended 31 December 2017. Net profit margin was approximately 0.6%, representing a decrease of approximately 0.4% as compared to the same period of 2017(2017: approximately 1.0%).



# Management Discussion and Analysis (Continued)

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The capital of the Group only comprises of ordinary shares and there was no change in the capital structure of the Group during the Year.

The total shareholders' equity of the Group as at 31 December 2018 was approximately RMB208.5 million (31 December 2017: RMB207.2 million). The Group had current assets of approximately RMB183.5 million (31 December 2017: RMB165.6 million) and current liabilities of approximately RMB154.9 million (31 December 2017: RMB137.9 million). The current ratio was 1.18 and 1.20 as at 31 December 2018 and 2017, respectively.

During the Year, the Group generally financed its operations with internally generated cash flow and credit facilities provided by its principal bankers in China. As at 31 December 2018, the Group had outstanding bank borrowings of approximately RMB60.0 million (31 December 2017: RMB41.7 million). These bank loans were secured by certain buildings, prepaid lease payments and trademarks owned by the Group. As at 31 December 2018, the Group maintained bank balances and cash of approximately RMB63.3 million (31 December 2017: RMB60.0 million). The Group's net cash-to-equity ratio (total bank and other borrowings net of cash and cash equivalents over shareholders' equity) was 0.02 and 0.09 as at 31 December 2018 and 2017, respectively.

The Directors believe that with the current capital and the available banking facilities, the Group possesses sufficient cash to meet its commitments and working capital requirements.

## CAPITAL COMMITMENTS

The Group had approximately RMB4.8 million of capital commitments not provided for in respect of property, plant and equipment as at 31 December 2018 (31 December 2017: approximately RMB8.1 million). The decrease in capital commitments was because subsequent investment projects were undergoing further market evaluation and inspection, where they have not been included in the figure.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Company's prospectus dated 30 June 2016 (the "Prospectus") and this report, the Group did not have other plans for material investments and capital assets as at 31 December 2018.

## GEARING RATIO

As at 31 December 2018, the Group's gearing ratio was approximately 28.8% (31 December 2017: approximately 20.1%), based on total debt of approximately RMB60.0 million and total equity of approximately RMB208.5 million. The increase is mainly attributable to the increase of bank borrowings to increase the liquidity of the Company by approximately RMB18.3 million or 43.9% to approximately RMB60.0 million as at 31 December 2018 (31 December 2017: approximately RMB41.7 million).

*Note:* Gearing ratio is calculated as the total debt divided by total equity. Total debt includes bank and other borrowings.

# Management Discussion and Analysis (Continued)

## CHARGE OVER ASSETS OF THE GROUP

As at 31 December 2018, the Group had prepaid lease payment, trademarks and charge over the Group's buildings of approximately RMB6.5 million (31 December 2017: approximately RMB6.7 million), nil (31 December 2017: nil) and RMB14.7 million (31 December 2017: approximately RMB15.9 million), respectively. These prepaid lease payment, trademarks and charged buildings were secured to general banking facilities granted to the Group.

## SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies during the Year. Save as disclosed in the Prospectus, there was no plan for material investments or capital assets as at 31 December 2018.

## CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities (2017: nil).

## FOREIGN EXCHANGE EXPOSURE

Most of the sales and cost of production of the Group are settled in Renminbi ("RMB"). There are only limited sales and administrative expenses which are denominated in United States Dollars ("US\$") and Hong Kong Dollars ("HK\$"). Therefore, the Group was not exposed to material foreign exchange risks. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. However, the Directors will continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had a total of approximately 291 employees (2017: 307). The Group's staff cost for the Year amounted to approximately RMB27.6 million (2017: approximately RMB30.5 million). The decrease was mainly due to the adoption of automatic production lines and technological improvements made to our new plant to improve work efficiency. The Group's remuneration policies are in line with the prevailing market practice and are determined on the basis of performance, qualification and experience of individual employee. The Group recognises the importance of maintaining a good relationship with its employees. The remuneration payable to its employees includes salaries and allowance.

In the PRC, the Group's employees have participated in various security insurance including social insurance prescribed by the Social Insurance Law of PRC\* (中華人民共和國社會保險法) and housing provident fund prescribed by the Regulations on Management of Housing Provident Fund\* (住房公積金管理條例).

\* English names are translated for identification purpose only

## SUBSEQUENT EVENT

There is no material subsequent event undertaken by the Company or the Group after 31 December 2018 and up to the date of this report.

# Management Discussion and Analysis (Continued)

## RETIREMENT BENEFITS PLANS

Particulars of retirement benefits plans of the Group as at 31 December 2018 are set out in note 26 to the consolidated financial statements.

Pursuant to the applicable PRC laws and regulations, the Group contributes to various security insurance including social insurance and housing provident fund.

No forfeited contributions are available to reduce the contribution payable by the Group in future years.

## PRINCIPAL RISKS AND UNCERTAINTIES

### Foreign exchange risk

Foreign exchange rate risk refers to the risk that movement in foreign currency exchange rates will affect the Group's financial results and cash flows. Since the Group's sales and productions are primarily in China, the Group is not expected to incur a significant amount of sales, assets and liabilities denominated in a currency other than RMB. However, certain administrative expenses related to legal and professional fees and other short-term borrowings are denominated in HK\$. In this case, the Group would be exposed to risks related to the exchange rate and the currency in which the Group's assets and liabilities is denominated. A depreciation of the RMB would require the Group to use more RMB funds to service the same amount of foreign currency liabilities, or a depreciation of foreign currency against RMB would result in receipts from receivables substantially less than the contractual amounts in terms of RMB at the settlement date. In addition, as the proceeds of the Placing was in HK\$, any appreciation of the RMB against the HK\$ will adversely affect the amount of proceeds the Group receives in terms of RMB. On the other hand, a depreciation of RMB would adversely affect the value of any dividends the Group pays to the shareholders subsequent to the Placing. The Group neither has a formal foreign currency hedging policy nor engages in hedging activities designed or intended to manage such exchange rate risk during the Year. Since RMB is not freely convertible, the Group's ability to reduce foreign exchange rate risk is limited.

### Credit risk

The Group is exposed to credit risk primarily arising from trade receivables, other receivables, advances to employees and independent third parties and bank balances. Trade receivables are substantially from customers with good collection track records with the Group. For trade receivables, the Group delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts and to mitigate credit risks. Impairment losses on trade receivables recognised during the Year was RMB26,000 under expected credit loss model ("ECL") (2017: Nil). The remaining amounts are still considered recoverable because there were subsequent settlements or no historical default of payments by the respective customers.

The Group is also subject to concentration of credit risk arising from its trade receivables as approximately 44% (2017: approximately 56%) of these receivables are due from the Group's largest five customers as at the year ended 31 December 2018.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with high credit ratings assigned by international credit-rating agencies or with good reputation.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of the end of each reporting period in relation to each class of recognised financial assets was the carrying amounts of those assets as stated on the Group's consolidated statements of financial position.

## Management Discussion and Analysis (Continued)

### Liquidity risk

The Group's financial liabilities are all falling due within the next 12 months from the end of the Year. As at 31 December 2018, the Group had net current assets and net assets of RMB28.6 million and RMB208.5 million, respectively. As a result, the Group is not exposed to liquidity risk. The Group manages the liquidity risk by maintaining sufficient cash and banking facilities to enable the Group to meet the Group's normal operating and capital commitments.

### Interest rate risk

The Group's interest rate risk relates primarily to the Group's bank balances as well as bank and other borrowings. The Group currently has not entered into any interest rate swaps to hedge against the Group's exposure to changes in fair values of the Group's borrowings. It is the Group's policy to maintain an appropriate level between the Group's borrowings so as to balance the fair value and cash flow interest rate risk. In addition, to the extent that the Group may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debts. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of the Group's debt obligations. The Group currently does not use any derivative instruments to manage the Group's interest rate risk. To the extent the Group decides to do so in the future, there can be no assurance that any future hedging activities will protect the Group from fluctuations in interest rates.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has implemented environmental protection measures, including procedures and programs related to noise control and waste discharge management, including waste water, solid waste and gases. The Group has sought to optimise the production procedure by adopting low energy consumption and pollution control techniques, implementing environmental-friendly waste disposal methods and enhancing the environmental awareness of our employees through regular trainings. To ensure compliance with applicable regulations, the Group has dedicated staff responsible for supervising and monitoring compliance with statutory regulations and the internal standards relating to environmental protection. Ms. Li Qiuyan, the chairman and executive Director of the Company, has the overall responsibility for environmental protection matters within the Group. The Group's operations were in compliance in all material respects with currently applicable national and local environmental protection laws and regulations in the PRC during the Year.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

## RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group has maintained a good relationship with suppliers and customers. During the Year, there was no material and significant dispute between the Group and its suppliers and/or customers. First, comprehensive training were provided to employees to enhance their abilities to cope with customers. Second, shortage rate and the defend rate of our products were strictly controlled. Third, we encouraged our customers to participate in designing new products. Major suppliers maintain years of cooperation with us as we strived to grow with the suppliers.

## Management Discussion and Analysis (Continued)

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress up to 31 December 2018.

#### **Business plan as set out in the Prospectus**

#### **Progress up to 31 December 2018**

##### ***Expand the production and warehouse capacity***

- |                                                                                                   |                                                                                                                                               |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| – Expand the annual production capability of the oral care products from 3,720 tons to 9,000 tons | The construction of the new production workshops of the oral care products was completed and has started operation in February 2018.          |
| – Construct a new inventory warehouse                                                             | The Group is planning to create additional inventory warehouse area in the existing factory premises to save the construction time and costs. |
| – Settle outstanding payment for the construction in progress                                     | The Group has settled the outstanding payments for the construction of the new production facilities and office building.                     |

##### ***Strengthen the products research and development capabilities***

- |                                                        |                                                                                                                                                                                      |
|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| – Purchase various laboratory and test equipment       | The Group has purchased the laboratory and test equipment and put them in use in the research and development centre in August 2016.                                                 |
| – Employ additional research and development personnel | The Group has employed 6 additional research and development personnel since mid-2016, increasing the Group's total research and development personnel to 16 as of 31 December 2018. |

##### ***Strengthen the leading position of the brands by advertising and promotion***

- |                                                                                |                                                                                                                                        |
|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| – Place television commercials and advertise in newspapers and on the internet | The Group has spent RMB1.8 million on the television commercials and advertisements in newspapers and on the Internet during the Year. |
|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|

##### ***Expand the sales network***

- |                                                   |                                                                                                                                  |
|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| – Employ additional sales and marketing personnel | The Group has increased the hiring of additional temporary sales and marketing personnel through service agents since June 2016. |
|---------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|

## Management Discussion and Analysis (Continued)

### USE OF PROCEEDS FROM THE PLACING

The net proceeds from the listing (the "Listing") of the shares of the Company on GEM of the Stock Exchange on 8 July 2016 by way of issuing and placing 250,000,000 ordinary shares (the "Placing") were approximately HK\$76.2 million, which was based on the final placing price of HK\$0.43 per share after deducting the underwriting fees and other expenses related to the Placing. Accordingly, the Group adjusted the use of proceeds in the same manner and proportion as shown in the Prospectus. Up to 31 December 2018, the net proceeds from the Placing had been applied as follows:

|                                                                             | <b>Planned use<br/>of proceeds<br/>as stated in<br/>the Prospectus</b> | <b>Actual use<br/>of proceeds<br/>up to<br/>31 December 2018</b> |
|-----------------------------------------------------------------------------|------------------------------------------------------------------------|------------------------------------------------------------------|
|                                                                             | HK\$ million                                                           | HK\$ million                                                     |
| Expand production and warehouse capacity                                    | 33.5                                                                   | 33.5                                                             |
| Strengthen the products research and development capabilities               | 7.0                                                                    | 7.0                                                              |
| Strengthen the leading position of the brand by advertisement and promotion | 21.2                                                                   | 21.2                                                             |
| Expand the sales network                                                    | 18.5                                                                   | 17.4                                                             |
| General working capital                                                     | 7.9                                                                    | 7.9                                                              |
| Total                                                                       | 88.1                                                                   | 87.0                                                             |

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business, the actual situation and the industry.

The Directors will constantly evaluate the Group's business objective and will change or modify plans against the changing market condition to increase the business growth of the Group.

### OUTLOOK

The economic outlook for 2019 remains uncertain and challenging. Competition in the domestic fast consumable product market is expected to be fierce. Our management team will face all of these challenges head on as part of our Group's growth process.

The Directors continue to take a step forward in the oral care industry and further expand the Group's business operations with a view to creating Shareholders' value. The Group has started the renovation of the production facilities on producing the FE Enzyme and functional cosmetics in its production base in Jiangyin, Jiangsu Province, PRC. This will reduce the cost of our toothpaste and expand the product lines. The directors believe that the Group's products' competitiveness can be further strengthened. In addition, the Group is determined to spare no effort in enhancing electronic commerce and the wechat business.

What deserves to be mentioned is that the government will make further effort alleviate the burden on enterprises. From 1 April 2019, the value-added tax rate for manufacturing will be lowered from 16% to 13%. On the other hand, according to the notice jointly issued by China's Ministry of Human Resources and Social Security and Ministry of Finance, effective from May 1 2019, social security premium will be sharply cut to lower the tax burden of the enterprises. The Directors believe that these new regulations will improve the results of the group.



# Biographies of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Ms. Li Qiuyan (李秋雁) (“Ms. Li”)**, aged 58, is the chairman and a controlling Shareholder (as defined under the GEM Listing Rules) of our Company. Ms. Li was first appointed as a director of our Company on 29 July 2015, and was redesignated as our executive Director on 17 June 2016. She was also appointed as the chairman of the nomination committee of the Board and a member of the remuneration committee of the Board on 25 May 2018. She is responsible for the overall management and formulation of business strategy of our Group. Ms. Li is the step-mother of Mr. Tong Xing, our executive Director and the chief executive officer of our Company. She is also the cousin of Ms. Du Yongwei, our executive Director.

Ms. Li was accredited as a senior economist by Jiangsu Province Human Resources and Social Protection Agency\* (江蘇省人力資源和社會保障廳) in October 2012. She passed the Jiangyin City Advanced Enterprise Capital Management Training Course and Jiangsu Province Small and Medium-sized Enterprises Advanced Business Administration Training Course held by Nanjing University (南京大學) in the PRC in September 2011 and September 2012, respectively.

Ms. Li joined our Group in October 1992. She was the deputy head of factory of the school-run factory of Jiangyin Province Center Primary School\* (江陰縣要塞中心小學校辦廠) (the “School-run Factory”), the predecessor of Jiangsu Snow Leopard Household Chemical Co. Limited (“Jiangsu Snow Leopard”), from 1992 to August 1994. She was a deputy general manager of the School-run Factory and Jiangsu Snow Leopard from September 1994 to March 2002, and from April 2002 to October 2010, respectively. Ms. Li was the general manager of Jiangsu Snow Leopard from November 2010 to March 2012, and she has been the chairman of the board of directors of Jiangsu Snow Leopard since November 2010.

**Mr. Tong Xing (童星) (“Mr. Tong”)**, aged 43, was appointed as a director of our Company on 29 July 2015, and was redesignated as our executive Director on 17 June 2016. Mr. Tong is also the chief executive officer and a substantial Shareholder (as defined under the GEM Listing Rules) of our Company. He is primarily responsible for the overall management and operation of our Group. Mr. Tong is the step-son of Ms. Li, an executive Director and the chairman of our Company.

Mr. Tong was accredited as a senior economist by the Jiangsu Province Human Resources and Social Protection Agency\* (江蘇省人力資源和社會保障廳) in August 2014. He completed an advanced MBA seminar provided by Tongji University (同濟大學) in the PRC in July 2003.

Mr. Tong joined our Group in April 1994. He worked at the School-run Factory, the predecessor of Jiangsu Snow Leopard, as a deputy business manager of the marketing department from April 1994 to August 1994, and was promoted to the position of business manager during the period between September 1994 and March 2002. From April 2002 to October 2010, Mr. Tong was the head of the marketing department of Jiangsu Snow Leopard. Mr. Tong was the vice chairman of the board of directors and deputy general manager of Jiangsu Snow Leopard from November 2011 to March 2012. He has been the general manager of Jiangsu Snow Leopard since April 2012.

**Ms. Du Yongwei (杜永衛)**, also known as Ms. Du Yongwei (杜咏衛) (“Ms. Du”), aged 48, was appointed as a director of our Company on 29 July 2015, and was redesignated as our executive Director on 17 June 2016. She is primarily responsible for the overall financial and operation of our Group. Ms. Du is the cousin of Ms. Li, an executive Director and the chairman of our Company.

## Biographies of Directors and Senior Management (Continued)

Ms. Du was accredited as a senior economist by the Jiangsu Province Human Resources and Social Protection Agency\* (江蘇省人力資源和社會保障廳) in October 2015. In December 2011, Ms. Du was also accredited as a brand manager by China General Chamber of Commerce (國商業聯合會). In November 2016, Ms Du became Jiangyin Municipal CPPCC Member (江陰市政協委員).

From October 1992 to March 1994, Ms. Du worked as an accountant at the School-run Factory, the predecessor of Jiangsu Snow Leopard. Ms. Du was the deputy administrative officer of the School-run Factory from April 1994 to March 2002. She was the administrative officer of Jiangsu Snow Leopard between April 2002 and March 2012, and was also a director of Jiangsu Snow Leopard from November 2010 to March 2012. Ms. Du has been the deputy general manager of Jiangsu Snow Leopard since April 2012.

Ms. Du is also a supervisor of Shanghai Jielan Daily Chemical Company Limited\* (上海潔瀾日化有限公司).

\* English names are translated for identification purpose only

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ye Jingzhong** (葉敬仲), aged 68, was appointed as an independent non-executive Director on 17 June 2016, the chairman of the remuneration committee of the Board, and a member of each of the audit committee and nomination committee of the Board on 17 June 2016. He is primarily responsible for overseeing the management of our Group independently.

Mr. Ye graduated from Fudan University in the PRC majoring in microbiology in January 1977 and has more than 34 years of experience in educational administrative role. From February 1978 to August 1982, Mr. Ye was a student mentor at the School of Life Sciences (the "School") of Fudan University. From August 1982 to May 1995, he was the administrative officer of the School. Mr. Ye became the associate dean of the School in May 1995 and served until April 1998. Thereafter, he served as the executive associate dean of the School from April 1998 to June 2003. Mr. Ye also undertook the position of secretary of the Communist Party Committee of the School from July 2002 to May 2012, and higher education management researcher from May 2008 to May 2012.

Mr. Ye is also a supervisor of Shanghai Bodao Genetic Technology Company Limited\* (上海博道基因技術有限公司).

**Mr. Qian Zaiyang** (錢在揚), aged 62, was appointed as our independent non-executive Director on 17 June 2016 and a member of each of the audit committee, nomination committee and remuneration committee of the Board on 17 June 2016. He is primarily responsible for overseeing the management of our Group independently.

Mr. Qian graduated from Yancheng Teachers University in the PRC majoring in physics in 1981. He was accredited as a journalist by Wuxi News Professional Skills Intermediate Position Appointment Qualification Review Committee\* (無錫市新聞專業技術中級職務任職資格評審委員會) in September 1997. Mr. Qian undertook various positions at Huadong Information Daily Newspaper\* (華東信息日報) (currently known as Wuxi Commercial Newspaper\* (無錫商報)) from August 1997 to February 2007, including reporter, supervisor of the publication department and deputy supervisor of the economic and life department. He took a career break between February 2007 and June 2011.

## Biographies of Directors and Senior Management (Continued)

Mr. Qian was the responsible person of the Wuxi branch of China Sida International Economic Technology Co-operation Company Limited\* (中國四達國際經濟技術合作有限公司無錫分公司) from June 2011 until its dissolution in September 2013. Mr. Qian was also employed as the vice general manager of Jiangsu Jinmao Investment Management Company Limited\* (江蘇金茂投資管理有限公司) (currently known as Jiangsu Jinmao Investment Management Shares Company Limited\* (江蘇金茂投資管理股份有限公司)) from January 2012 to May 2013 and was principally responsible for project development, investigation and investment management of the company in Wuxi. Mr. Qian also undertook the position of visiting researcher at the Finance Research Institute of Jiangnan University from July 2010 to July 2013.

**Mr. Tang Wai Yau (鄧維祐)**, aged 44, was appointed as our independent non-executive Director on 17 June 2016 and the chairman of the audit committee of the Board on 17 June 2016. He is primarily responsible for overseeing the management of our Group independently.

Mr. Tang graduated from the Hong Kong Polytechnic University with a bachelor of arts degree (Accountancy) in November 1997. He is also a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountant. Mr. Tang has over 18 years of experience in the accounting profession.

From September 1997 to January 2009, Mr. Tang was employed by Deloitte and his position was senior manager at the time of his departure. During the period between 2009 and 2012, he worked at SHINEWING (HK) CPA Limited as an audit principal. Mr. Tang was also an audit principal at KLC Kennic Lui & Co. CPA Limited from February 2009 to October 2009, and has been a director since July 2014. Mr. Tang started his own consulting business advising clients on finance and accounting related matters in 2013 and he has subsequently carried on the business through LF Consulting Company Limited as a director since February 2014. Mr. Tang is currently a director of KLC Kennic Lui & Co. CPA Limited and LF Consulting Company Limited.

Saved as disclosed herein, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of the Directors that needs to be brought to the attention of the Shareholders and there was no information in relation to the Directors that is required to be disclosed pursuant to Rule 17.50 (2) of the GEM Listing Rules as at the date of this report.

### SENIOR MANAGEMENT

**Ms. Zhu Liyan (朱麗燕)**, aged 40, has been the chief financial officer of our Group since 14 August 2018. Ms. Zhu is responsible for the overall financial management. She obtained her bachelor's degree in accounting from Shanghai University of Finance and Economics in January 2010. She obtained her accountant's license from the Finance Bureau of Jiangyin in September 2001. She then achieved the intermediate qualification level for her accounting qualification by the Ministry of Finance of the People's Republic of China in May 2007. She was also awarded the qualifications of Registered Tax Agent by the Human Resources and Social Security Department of Jiangsu Province in September 2010 and International Registered Internal Auditor by the China Institute of Internal Audit in November 2012, respectively.

She was the head of finance department of our principal operation subsidiary Jiangsu Snow Leopard Daily Chemical Co., Ltd.\* (江蘇雪豹日化有限公司) ("Jiangsu Snow Leopard"), responsible for its overall financial management, before she was promoted to the position of CFO. Over the years, she has accumulated 17 years of experience in the field of accounting and finance. Ms. Zhu started her career with Jiangsu Snow Leopard as an accountant in December 2002. After 8 years of service with our Group, she worked for Jiangyin Daqiao Accounting Firm\* (江陰大橋會計師事務所) from December 2010 to May 2011 as an auditor. From May 2011 to January 2016, she was the group finance manager of Jetion Solar Technology Co., Limited\* (中建材浚鑫科技有限公司).

## Biographies of Directors and Senior Management (Continued)

**Mr. Xiang Dongliang** (項東亮), aged 37, was appointed as the joint company secretary of the Company on 28 August 2018. Mr. Xiang is responsible for the company secretarial work of our Group. He has been employed by the Group since January 2012 and has been under the direct supervision of the Company's three executive directors throughout the years as the head of the Group's planning department. From his long service in the Group and performance of his responsibilities in respect of administrative support, strategic planning and internal training of the Company, as well as the fact that he was involved in the entire initial public offering procedure of the Company and has been assisting the former company secretary Mr. Lau in handling certain corporate governance and company secretarial matters after the Company was listed, Mr. Xiang has gained a high degree of familiarity with both the administrative and the operational affairs of the Group, and a reasonable level of understanding in the corporate governance and company secretarial procedure of a listed company.

Mr. Xiang obtained a Bachelor's degree in Engineering (Chemical Engineering) and completed a second major in International Economics and Trade from Jiangnan University (江南大學) in the PRC in June 2005. Mr. Xiang also obtained a Master's degree in Engineering (Food Science and Engineering, Food Trade and Culture) from Jiangnan University in the PRC in June 2008. Prior to joining the Company, Mr. Xiang worked at Ningguo Lake Forest Science and Technology Park Company Limited\* (寧國森林湖科技園有限責任公司) from June 2008 to June 2010. At the time of his departure, Mr. Xiang was the deputy general manager and assistant to the chairman.

**Mr. Xu Zhiliang** (徐志良), aged 56, has been the head of research and development department of our Group since June 2003 and is responsible for technology research and development of our Group.

Mr. Xu was accredited as an engineer by the People's Government of Chongming County\* (崇明縣人民政府) in September 1995. He graduated from the Shanghai Jiao Tong University (上海交通大學) in the PRC majoring in Standardisation in April 1993. He has been a committee member of China Oral Care Industry Association since May 2014.

Prior to joining our Group, Mr. Xu worked at Shanghai Shengli Rihua Factory\* (上海市勝利日化廠) as a technician from 1980 to 1982. He worked as the head of technical division at Shanghai Shengli Rihua jointly-operated Factory\* (上海市勝利日化聯營廠) during the period between 1983 and 1993, and was a factory manager from 1994 to 1997. He worked as a deputy general manager of Shanghai Victoria Bio-Chemical Products Factory\* (上海維多利生物化學品廠) from 1998 to 2003.

\* English names are translated for identification purpose only

### JOINT COMPANY SECRETARIES

Mr. Xiangdongliang and Mr. Raymond Chi Ho Wong are the joint company secretaries of our Company. For details of Mr. Xiang's qualifications and experience, please refer to the paragraph headed "Senior Management" above.

**Mr. Raymond Chi Ho Wong** (黃志豪), aged 47, was appointed as the joint company secretary of the Company on 28 August 2018. He is a director of SS Corporate Services Limited, and the managing partner of Wong, Wan & Partners, a firm of Hong Kong solicitors in Association with Seyfarth Shaw LLP, a registered foreign law firm in Hong Kong. Mr. Wong has over 20 years of experience in corporate law, general corporate and commercial, cross-border mergers and acquisitions, initial public offerings, listed companies and regulatory compliance and public takeovers in Hong Kong, PRC and the United Kingdom. Mr. Wong obtained a Master of Arts degree in law from City, University of London in March 2000, and a Master of Laws degree in Chinese Law from The University of Hong Kong in December 2003. Mr. Wong was admitted as a solicitor of the Supreme Court of England and Wales in September 2000 and a solicitor of the High Court of Hong Kong in December 2000.

# Directors' Report

The Directors present to the Shareholders this report and the audited consolidated financial statements of the Company and its subsidiaries for the Year.

## PRINCIPAL ACTIVITIES

The principal business activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiary are set out in notes 1 and 31 to the consolidated financial statement in this report. There were no significant changes in the nature of the Group's activities during the Year.

## RESULTS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 57 of this report.

## BUSINESS REVIEW

Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" on pages 6 to 13 of this report. These discussions form part of this directors' report.

## FINAL DIVIDEND

The Company has adopted policy on payment of dividends in compliance with code provision E.1.5 of the Code, which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company. The Company will declare and/or recommend the payment of dividends to Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions and so on. The Board has complete discretion on whether to pay a dividend, subject to Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors of and affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends. The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

The Board does not recommend the payment of a final dividend for the Year (2017: nil) in light of the profit level of the Company during the Year. There is no arrangement that a Shareholder has waived or agreed to waive any dividend.



### ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting ("AGM") of the Company will be held on 22 May 2019 (Wednesday) at conference room, No. 35 Yingbin Road, Xiake Town, Jiangyin City, Jiangsu Province, the PRC. For the purpose of determining entitlement to attend the forthcoming AGM, the register of members of the Company will be closed from 16 May 2019 (Thursday) to 22 May 2019 (Wednesday), both day inclusive, during which period no transfer of shares of the Company (the "Share") will be registered. The record date will be on 15 May 2019 (Wednesday). In order to qualify for attending the forthcoming AGM, all transfer of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on 15 May 2019 (Wednesday).

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 15 to the consolidated financial statements in this report.

### SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2018 are set out in note 31 to the consolidated financial statements.

### SEGMENT INFORMATION

An analysis of the Group's performance for the Year by operating segment is set out in note 7 to the consolidated financial statements.

### FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last four financial years, as extracted from the published audited consolidated financial statements is set out on page 128. This summary does not form part of the audited consolidated financial statements in this report.

### BANK AND OTHER BORROWINGS

Details of the Group's bank and other borrowings as at 31 December 2018 are set out in note 22 to the consolidated financial statements in this report.



## Directors' Report (Continued)

### SHARE CAPITAL

Details of the Company's share capital for the Year are set out in note 24 to the consolidated financial statements in this report.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

### EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as set out in this section, no equity-linked agreements were entered into by the Group, or existed during the Year.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year and up to the date of this report.

### TRANSFER TO RESERVES

No appropriation from profit attributable to equity shareholders has been transferred to reserves during the Year. Other movements in reserves are set out in the consolidated statement of changes in equity on page 60 of this report.

### MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

During the Year and up to the date of this report, there was no material acquisition, disposal or investment by the Group.

### MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 23% of the total sales for the Year, and sales to the largest customer included therein accounted for approximately 12% of the total sales for the Year. Purchase from the Group's five largest suppliers accounted for approximately 31% of the total purchase for the Year, and purchase from the Group's largest supplier included therein accounted for approximately 13% of the total purchase for the Year.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material beneficial interest in the Group's five largest customers and suppliers.

### DIRECTORS

During the Year and up to the date of this report, the Directors are:

#### Executive Directors:

Ms. Li Qiuyan (*Chairman*)

Mr. Tong Xing (*Chief executive officer*)

Ms. Du Yongwei

#### Independent non-executive Directors:

Mr. Ye Jingzhong

Mr. Qian Zaiyang

Mr. Tang Wai Yau

By virtue of Article 108(a) of the articles of association of the Company, Ms. Du Yongwei and Mr. Ye Jingzhong will retire at the forthcoming AGM and, being eligible to offer themselves for re-election at the said meeting.

### DIRECTORS' SERVICE CONTRACT

Each of the Directors has entered into a service contract or letter of appointment with the Company for an initial term of 3 years commencing from the Listing Date, which may only be terminated in accordance with the provision of the service contract or by (i) the Company giving to any Director not less than three months prior notice in writing or (ii) any Director giving to the Company not less than three months prior notice in writing, and are subject to rotation and re-election at the AGMs of the Company in accordance with the articles of association of the Company.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management are disclosed in the section headed "Biographies of Directors and Senior Management" on pages 14 to 17 of this report.

### DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

Details of the Directors' emoluments and the five individuals with the highest emoluments are set out in note 14 respectively to the consolidated financial statements in this report.

## Directors' Report (Continued)

### INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN CONTRACTS

Save as disclosed in the section headed "Related Party Disclosures" in note 29 to the consolidated financial statements, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year. No contract of significance has been entered into during the Year between the Company or any of its subsidiaries and the controlling Shareholders or any of its subsidiaries.

No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling Shareholders of the Company or any of its subsidiaries was entered into during the Year and as at the date of this report.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

### DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Each of the Directors or the controlling Shareholders and their respective close associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the year and up to the date of this report.

### DISTRIBUTION RESERVES

As at 31 December 2018, the Company's reserves available for distribution to the Shareholders represented the share premium, capital reserve, PRC statutory reserve, translation reserve and retained profits and amounted to approximately RMB198.6 million.

Details of movements in the reserves of the Company and the Group during the Year are set out in note 25 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

### INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Group's compliance adviser, First Shanghai Capital Limited (the "Compliance Adviser"), save as the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 28 August 2015, none of the Compliance Adviser or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

### CONNECTED TRANSACTIONS

During the Year, there were no connected transactions or continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rules. Details of significant related party transactions undertaken in the usual course of business are set out in note 29 to the consolidated financial statements. None of these related party transactions constitute a discloseable connected transaction as defined under the GEM Listing Rules.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2018, the interest and short position of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), (i) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) as required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

#### Long position in the ordinary shares of the Company:

| Name of Director | Capacity/Nature                                        | No. of Shares held/<br>interested in | Approximate<br>percentage of<br>interest |
|------------------|--------------------------------------------------------|--------------------------------------|------------------------------------------|
| Ms. Li Qiuyan    | Interest in a controlled corporation ( <i>Note 1</i> ) | 575,625,000                          | 57.56%                                   |
| Mr. Tong Xing    | Interest in a controlled corporation ( <i>Note 2</i> ) | 106,875,000                          | 10.69%                                   |

Notes:

- Ms. Li beneficially owns the entire issued share capital of ChongBo Mary Investment Limited ("ChongBo Mary"). Therefore, Ms. Li is deemed, or taken to be, interested in the shares of the Company held by ChongBo Mary for the purposes of the SFO. Ms. Li is a director of ChongBo Mary.
- Mr. Tong beneficially owns the entire issued share capital of Tong Xing Holding Group Limited ("Tong Xing Holding"). Therefore, Mr. Tong is deemed, or taken to be, interested in the shares of the Company held by Tong Xing Holding for the purposes of the SFO. Mr. Tong is a director of Tong Xing Holding.

#### Long position in the shares of associated corporation:

| Name of Director | Name of associated<br>corporation | Capacity/Nature  | No. of<br>shares held/<br>interested in | Approximate<br>percentage of<br>interest |
|------------------|-----------------------------------|------------------|-----------------------------------------|------------------------------------------|
| Ms. Li           | ChongBo Mary                      | Beneficial owner | 1                                       | 100%                                     |

Save as disclosed above, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

## Directors' Report (Continued)

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

As at 31 December 2018, so far as the Directors are aware, the following persons (not being Directors or chief executives of the Company) had interests or short positions in the shares and 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 recorded in the register required to be kept under Section 336 of the SFO and/or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

#### Long position in the ordinary shares of the Company:

| Name              | Capacity/Nature                      | No. of Shares held/<br>interested in | Approximate<br>percentage of<br>interest |
|-------------------|--------------------------------------|--------------------------------------|------------------------------------------|
| ChongBo Mary      | Beneficial owner                     | 575,625,000                          | 57.56%                                   |
| Tong Xing Holding | Beneficial owner                     | 106,875,000                          | 10.69%                                   |
| Ms. Zhang Li      | Interest of spouse ( <i>Note 1</i> ) | 106,875,000                          | 10.69%                                   |

*Note:*

1. Ms. Zhang Li is the spouse of Mr. Tong. Accordingly, Ms. Zhang Li is deemed, or taken to be, interested in the Shares held by Mr. Tong for the purposes of the SFO.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any other persons who had any 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 recorded in the register required to be kept under section 336 of the SFO, and/or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraphs headed "Directors' and chief executives' interests and/or short positions in shares, underlying shares and debentures of the Company or any associated corporations" above, and "Share Option Scheme" below, at no time during the Year was the Company, its holding company, or subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 17 June 2016 (the "Adoption Date"). The following is a summary of the principal terms and conditions of the Share Option Scheme.

#### 1. Purpose

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

#### 2. Participants

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, options to subscribe at a price calculated in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, including, where required under the GEM Listing Rules, the independent non-executive Directors) from time to time on the basis of the participant's contribution or potential contribution to the development and growth of the Group.

#### 3. Maximum Number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of all the Shares in issue as at the Listing Date of the Company (i.e. a total of 100,000,000 Shares representing 10% of the issued share capital of the Company as at the date of this report).

#### 4. Maximum Entitlement of Each Participant and Connected Persons

The total number of Shares issued and to be issued upon exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option scheme of the Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

#### 5. Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

#### 6. Performance Target

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.



## Directors' Report (Continued)

### 7. Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where the Company has been listed on the Stock Exchange for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before Listing.

### 8. Rights are Personal to Grantee

An option shall not be transferable or assignable and shall be personal to grantee of the option. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option (where the grantee is a company, any change of its major shareholder or any substantial change in its management will be deemed to be a sale or transfer of interest as aforesaid). Any breach of these restrictions will automatically render the option lapsed.

### 9. Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof.

Since the adoption of the Share Option Scheme and up to the date of this report, no share options have been granted pursuant to the Share Option Scheme.

There is no option outstanding, granted, cancelled and lapsed during the Year.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 291 employees (2017: 307), including the Directors. The Directors and senior management received compensation in the form of fees, salaries, allowances, benefits in kind and/or discretionary bonuses relating to the performance of the Group. When reviewing and determining the specific remuneration package for the Directors and senior management, the Company took into consideration factors such as, among other things, the economic situation, the market level of salaries paid by comparable companies, the respective responsibilities and duties of the individual and the performance of the individual and the Group. The remuneration committee of the Board has been set up for reviewing the Group's emolument policy and structure for the remuneration of the Directors.

The Group's remuneration to employees included salaries and allowances.

## CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" on pages 28 to 40 of this report.

### CHARITABLE DONATIONS

During the Year, the Group had made charitable and other donation more than RMB400,000. (2017: Nil).

### CONFIRMATION OF INDEPENDENCE

The Company has received from the independent non-executive Directors an annual confirmation pursuant to Rule 5.09 of the GEM Listing Rules and considers that all the independent non-executive Directors are independent to the Company.

### PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors has been in force since the Listing Date and as at the date of this report. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors.

### EVENT AFTER THE BALANCE SHEET DATE

There was no significant events affecting the Group that have occurred since the end of the Year to the date of this report.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float since the Listing Date and up to the date of this report as required under the GEM Listing Rules.

### AUDITORS

SHINEWING (HK) CPA Limited has acted as auditors of the Company during the Year. The Company has not changed its external auditors during the Year and up to the date of this report.

SHINEWING (HK) CPA Limited will retire and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for the re-appointment of SHINEWING (HK) CPA Limited as auditors of the Company is to be proposed at the forthcoming AGM.

By Order of the Board of  
**China Golden Classic Group Limited**  
**Ms. Li Qiuyan**  
*Chairman*

Hong Kong, 28 March 2019

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

Pursuant to Rule 18.44 of the GEM Listing Rules, the Board is pleased to present the corporate governance report of the Company for the Year (this "Report").

The Board recognises the value and importance of achieving high corporate governance standards and is committed to upholding good corporate standards and procedures for the best interest of the Shareholders.

During the Year, the Company has complied with all the applicable code provisions in the Corporate Governance Code (the "Code") contained in Appendix 15 to the GEM Listing Rules. The principles of the Code have been applied throughout in order to enable the Shareholders to evaluate how the principles have been applied.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer is clearly established and set out in writing. To ensure a balance of power and authority, the Company has been fully supportive of the division of responsibility between the chairman and the chief executive officer. The roles of the chairman and the chief executive officer have been segregated and performed by Ms. Li Qiuyan and Mr. Tong Xing, respectively. Ms. Li Qiuyan has been primarily responsible for making sure that adequate information about the Company's business is provided to the Board on a timely basis, and that all directors were properly briefed on issues arising at board meetings. Apart from providing information, Ms. Li Qiuyan has also been providing leadership for the Board, ensuring that all issues are discussed in a timely manner, and good corporate governance practices and procedures has been established, and encouraging all directors to make full and active contribution to the Board's affairs to ensure it acts in the best interests of the Company. Ms. Li Qiuyan has also been promoting a culture of openness and debate by facilitating effective contribution of all directors. Also, she has been ensuring that appropriate steps have been taken to provide effective communication with Shareholders and that their views have been communicated to the Board as a whole.

Mr. Tong Xing has been primarily responsible for the overall management and operation of the Group, and implementation of the objectives, policies and strategies approved by the Board.

Ms. Li Qiuyan has held meeting with the independent non-executive Directors without the presence of other Directors on 28 November 2018.

## APPOINTMENT, RE-ELECTION AND RETIREMENT OF THE DIRECTORS

The Company has implemented a formal and transparent procedure for appointment of directors in compliance with the Code. Pursuant to Article 108(a) of the articles of association of the Company, at every AGM of the Company, one third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

# Corporate Governance Report (Continued)

## DIRECTORS SERVICE CONTRACTS AND APPOINTMENT LETTERS

Each of the Directors has entered into a service contract or letter of appointment with the Company for an initial term of three years commencing from the Listing Date, which may only be terminated in accordance with the provision of the service contract or by (i) the Company giving to any Director not less than three months' prior notice in writing or (ii) any Director giving to the Company not less than three month's prior notice in writing.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted as the code of conduct regarding securities transactions by Directors in respect of the shares of the Company (the "Code of Conduct") the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the Code of Conduct during the Year and up to the date of this Report.

## BOARD OF DIRECTORS

The Board comprised three executive Directors and three independent non-executive Directors as at the date of this Report, details of which are set out below:

### Executive Directors:

Ms Li Qiuyan (*Chairman*)

Mr. Tong Xing (*Chief executive officer*)

Ms. Du Yongwei

### Independent non-executive Directors:

Mr. Ye Jingzhong

Mr. Qian Zaiyang

Mr. Tang Wai Yau

The brief biographic details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 14 to 17 of this Report.

Ms. Li Qiuyan is the step-mother of Mr. Tong Xing, our executive Director and the chief executive officer of our Company. She is also the cousin of Ms. Du Yongwei, our executive Director.

The list of Directors identifying their names, roles and functions are set out on the Company's website and on the GEM website.

# Corporate Governance Report (Continued)

## FUNCTIONS OF THE BOARD

The Board supervises the management of the business and affairs of the Company. The Board's primary duties are to ensure the business viability of the Company and to ensure that it is managed in the best interests of the Shareholders while taking into account the interests of other stakeholders. The Group has adopted internal guidelines in compliance with the Code, setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board approves the Group's strategic plan, key operational initiatives, major investment and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks. Daily business operations and administrative functions of the Group are delegated to the management.

The Board also delegated the corporate governance functions under code provision D.3.1 of the Code. After reviewing the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, policies and practices on compliance with legal and regulatory requirements, compliance with the Code of Conduct and compliance manual, and the compliance with the Code and disclosure in this Report, the Board is satisfied with the effectiveness of the Company's corporate governance policy.

## BOARD MEETING AND PROCEDURES

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly in compliance with the Code. In compliance with code provision A.1.3 of the Code, at least 14 days' notice has been given for a regular Board meeting to give all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meetings are sent to all Directors with reasonable time and at least 3 days prior to the meetings to ensure all directors are given an opportunity to include matters in the agenda for regular board meetings and are able to make informed decisions on matters placed before them. The management has supplied the Board and its committees with adequate and reliable information, and all Directors can make further enquiries as to the board meetings.

Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings.

Independent non-executive Directors are also encouraged to give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments.

Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions.

Full minutes are prepared after the meetings and the draft minutes are sent to all Directors for their comments on the final version of which are endorsed in the subsequent Board meeting.

Each of the executive Directors and independent non-executive Directors has entered into a service agreement or letter of appointment with the Company for an initial term of three years commencing from the Listing Date.

Every Director is subject to re-election on retirement by rotation in accordance with the articles of association of the Company.

## Corporate Governance Report (Continued)

Details of the attendance of the Board meetings, audit committee (the “Audit Committee”) meeting, remuneration committee (the “Remuneration Committee”) meeting and nomination committee (the “Nomination Committee”) meeting of the Company held for the Year are summarised as follows:

|                                            | <b>Board<br/>meetings</b> | <b>Audit<br/>Committee<br/>meetings</b> | <b>Remuneration<br/>Committee<br/>meetings</b> | <b>Nomination<br/>Committee<br/>meetings</b> |
|--------------------------------------------|---------------------------|-----------------------------------------|------------------------------------------------|----------------------------------------------|
| <b>Executive Directors</b>                 |                           |                                         |                                                |                                              |
| Ms. Li Qiuyan                              | 5/5                       | N/A                                     | 1/1                                            | 1/1                                          |
| Mr. Tong Xing                              | 5/5                       | N/A                                     | N/A                                            | N/A                                          |
| Ms. Du Yongwei                             | 5/5                       | N/A                                     | N/A                                            | N/A                                          |
| <b>Independent non-executive Directors</b> |                           |                                         |                                                |                                              |
| Mr. Ye Jingzhong                           | 5/5                       | 4/4                                     | 1/1                                            | 1/1                                          |
| Mr. Qian Zaiyang                           | 5/5                       | 4/4                                     | 1/1                                            | 1/1                                          |
| Mr. Tang Wai Yau                           | 5/5                       | 4/4                                     | N/A                                            | N/A                                          |

### BOARD COMMITTEES

The Board has established specific committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, with written terms of reference which are available for viewing on the website of the Company to assist them in efficient implementation of their functions. Specific responsibilities have been delegated to the above committees, and sufficient resources have been given by the Company to each of the committees to perform its duties.

### Corporate Governance Function

In compliance with the code provision D.3.1 of the Code, the Directors have been collectively responsible for performing the corporate governance duties of the Company, which included developing and reviewing the Company’s policies and practices on corporate governance and make recommendations to the Board; reviewing and monitoring the training and continuous professional development of the Directors and senior management of the Company; reviewing and monitoring the Company’s policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the Code of Conduct and compliance manual applicable to employees and Directors of the Company; and reviewing and ensuring the Company’s compliance with the Code from time to time adopted by the Company and the disclosure in the Corporate Governance Report to be contained in the Company’s annual reports.



## Corporate Governance Report (Continued)

### AUDIT COMMITTEE

The Company established the Audit Committee on 17 June 2016 with written terms of reference which are in compliance with Rule 5.28 to 5.33 of the GEM Listing Rules and code provision C.3.3 and C.3.7 of the Code. The primary duties of the Audit Committee are to make recommendations to the Board on appointment or reappointment and removal of external auditors; review financial statements of the Company and judgments in respect of financial reporting; and oversee internal control procedures and risk management system of the Company. The Audit Committee is chaired by Mr. Tan Wai Yau (an independent non-executive Director), and consists of two other independent non-executive Directors, namely Mr. Ye Jingzhong and Mr. Qian Zaiyang. None of them acted as former partner of the Company's existing auditing firm within 2 years immediately prior to their respective date of appointment. All of them do not have material interest in any principal business activity of the Group, nor is or was any of them involved in any material business dealing with the Group or with any core connected persons of the Group within 1 year immediately prior to their respective date of appointment.

During the Year, the Audit Committee had reviewed the Group's unaudited quarterly results for the three months ended 31 March 2018, the nine months ended 30 September 2018 and unaudited interim results for the six months ended 30 June 2018 as well as audited annual results for the year ended 31 December 2017 and the Group's internal controls for the Year. The Group's results for the Year had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this Report, and confirmed that this Report complies with the GEM Listing Rules.

The Audit Committee held four meetings during the Year. Details of the attendance of the Audit Committee at the Audit Committee meetings are set out in the section headed "Board Meeting and Procedures".

### REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 17 June 2016 with written terms of reference which are in compliance with Rule 5.34 of the GEM Listing Rules and code provision B.1.2 of the Code. The Remuneration Committee is provided with adequate resources to perform its duties. The primary duties of the Remuneration Committee are to make recommendations to the Board on the policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The Remuneration Committee is chaired by Mr. Ye Jingzhong (an independent non-executive Director), and consists of two other members, namely Ms. Li Qiuyan (an executive Director) and Mr. Qian Zaiyang (an independent non-executive Director).

The Remuneration Committee has reviewed the remuneration packages and emoluments of the Directors and senior management and considered that the remuneration packages and emoluments are fair and reasonable during the Year.

One Remuneration Committee meeting was held during the Year. Details of the attendance of the Remuneration Committee at the Remuneration Committee meeting are set out in the section headed "Board Meeting and Procedures".

### NOMINATION COMMITTEE

The Company established the Nomination Committee on 17 June 2016 with written terms of reference which are in compliance with the code provision A.5 of the Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board annually; identify individuals suitably qualified to become Board members; assess the independence of the independent non-executive Directors; and make recommendations to the Board on relevant matters relating to appointment or re-appointment of Directors. The Nomination Committee is chaired by Ms. Li Qiuyan, who is also the chairman of the Board, and consists of two other members, namely Mr. Ye Jingzhong (an independent non-executive Director) and Mr. Qian Zaiyang (an independent non-executive Director).

One Nomination Committee meeting was held during the Year. Details of the attendance of the Nomination Committee at the Nomination Committee meeting are set out in the section headed "Board Meeting and Procedures".

### BOARD NOMINATION POLICY

The Company has adopted a nomination policy in compliance with the Code. It has written guidelines for nomination committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors. The Board, through the delegation of its authority to the nomination committee, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in business, finance and management skills critical to the Group's business to enable the Board to make sound and well considered decisions. Collectively, the Directors have competencies in areas which are relevant and valuable to the Group.

### NOMINATION PROCESS

The nomination committee has been responsible for assessing whether any vacancy on the Board has been created or is expected on a regular basis or as required. The nomination committee utilises various methods for identifying director candidates, including recommendations from Board members, management, and professional search firms. All director candidates, including incumbents and candidates nominated by Shareholders are evaluated by the nomination committee based upon the director qualifications. While director candidates will be evaluated on the same criteria through review of resume, personal interview and performance of background checks. The nomination committee retains the discretion to establish the relative weighting of such criteria, which may vary based on the composition, skill sets, age, gender and experiences of the collective Board rather than on the individual candidate for the purpose of diversity perspectives appropriate to the requirement of the Company's business.

### SELECTION CRITERIA

The nomination committee will take into account whether a candidate has the qualifications, skills, experience and gender diversity that add to and complement the range of skills, experience and background of existing Directors by considering the highest personal and professional ethics and integrity of the director candidates, proven achievement and competence in the nominee's field and the ability to exercise sound business judgment, skills that are complementary to those of the existing Board, the ability to assist and support management and make significant contributions to the Company's success and such other factors as it may deem are in the best interests of the Company and its Shareholders. The Company shall review and reassess the nomination policy and its effectiveness on a regular basis or as required.

# Corporate Governance Report (Continued)

## DIVERSITY OF THE BOARD

The composition of the Board is reviewed on an annual basis by the nomination committee to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competence for informed decision-making and effective functioning. The Company adopted its own board diversity policy and recognised the benefits of having diversity in the composition of the Board.

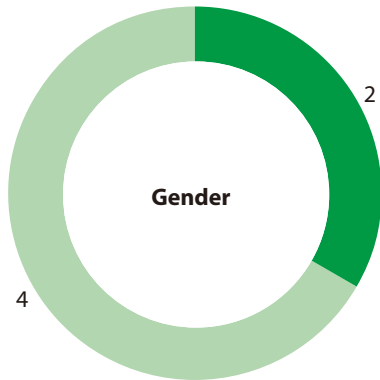
The Company noted that that people from different backgrounds and with different professional and life experiences would likely approach problems in different ways and accordingly, members of the Board with diverse backgrounds will bring different concerns and questions to the table, and allow the Board to consider a wider range of options and solutions when deciding on corporate issues and formulating policies for the Group. In determining the Board's composition and selection of candidates to the Board, nomination committee will consider factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, industry knowledge and length of service.

All Board appointments will be based on meritocracy, and candidates will be considered against the selection criteria, having regard for the benefits of diversity on the Board, the business model and specific needs of the Group. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

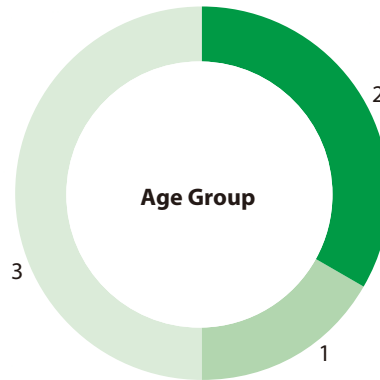
## COMPOSITION OF THE DIVERSIFIED BOARD

As at the date of this Report, the Board comprises six Directors, two of which are females. The following diagram and/or table further illustrate the composition and diversity of the Board in terms of position, gender, age group, length of service with the Group, education background and professional background as of the date of this Report:

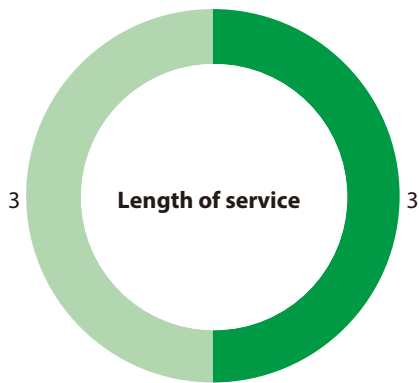
## Corporate Governance Report (Continued)



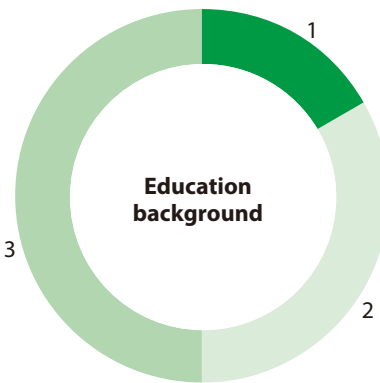
Male Female



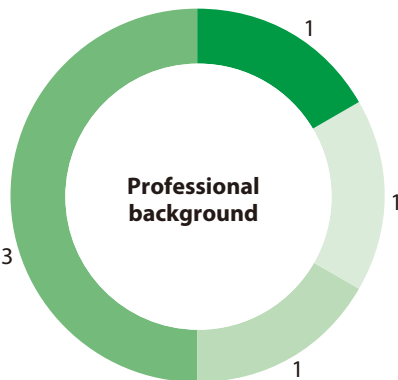
30-49 50-60 61 or above



> 10 years < 10 years



Business Science Accounting



Management in the daily household products' manufacturing industry Accounting and finance Education Investment management

# Corporate Governance Report (Continued)

## PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

In compliance with the code provision A.6.5 of the Code, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Directors had provided the relevant record to the Company for the Year.

The Company is committed in arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the GEM Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All the Directors also understand the importance of continuous professional development and are committed to participate in any suitable training to develop and refresh their knowledge and skills.

During the Year, each of the Directors, namely Ms. Li Qiuyan, Mr. Tong Xing, Ms. Du Yongwei, Mr. Ye Jingzhong, Mr. Qian Zaiyang and Mr. Tang Wai Yau received from the Company from time to time updates on laws, rules and regulations which might be relevant to their roles, duties and functions as director of a listed company. On 1 March 2019, our joint company secretary Mr. Raymond Chi Wong conducted a director's training on the updated GEM Listing Rules and the Code. The content of training related to the duties of directors and on-going obligations of listed companies.

All Directors, namely Ms. Li Qiuyan, Mr. Tong Xing, Ms. Du Yongwei, Mr. Ye Jingzhong, Mr. Qian Zaiyang and Mr. Tang Wai Yau, were updated with the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefing and professional development to Directors will be arranged whenever necessary.

## COMPANY SECRETARY

The Board had appointed Mr. Xiang Dong Liang ("Mr. Xiang") and Mr. Raymond Chi Ho Wong ("Mr. Wong") as joint company secretaries (the "Joint Company Secretaries"). Mr Xiang became an authorised representative of the Company on 28 August 2018.

All Directors have access to the advice and services of the Joint Company Secretaries. The Joint Company Secretaries report to the Chairman on board governance matters, and are responsible for ensuring that board procedures are followed and facilitating communications among Directors as well as with Shareholders and management. For the year under review, the Joint Company Secretaries confirmed that both of them have undertaken no less than 15 hours of relevant professional training.

The Joint Company Secretaries' biographies are set out in the section headed "Biographies of Directors and Senior Management" of this report.

# Corporate Governance Report (Continued)

## SENIOR MANAGEMENT REMUNERATION

The Senior Management's remuneration payment of the Group in the Year falls within the following band:

|                                | <b>Number of individuals</b> |
|--------------------------------|------------------------------|
| HK\$1,000,000 or below         | 3                            |
| HK\$1,000,001 to HK\$1,500,000 | Nil                          |
| HK\$1,500,001 to HK\$2,000,000 | Nil                          |

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements of the Group for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period in accordance with accounting principles generally accepted in Hong Kong. The financial statements are prepared with sufficient explanation and information provided by the management to the Board, where the management provides the Board with monthly updates giving balanced and understandable assessment of the Company's performance, position and prospects in detail. The goal is for the Board to present a balanced, clear and understandable assessment in annual and interim reports, and other financial disclosures required by the GEM Listing Rules. The statement by auditors of the Company about their responsibilities for the financial statements is set out in the independent auditors' report contained in this report. The Directors have adopted the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

An analysis of the Company's performance is set out under the section "Management Discussion and Analysis", which discusses the group's performance, explains the basis on which Company generates/preserves value over the longer term, and explains the strategy for delivering the Company's objectives.

## EXTERNAL AUDITORS' REMUNERATION

The Company engaged SHINEWING (HK) CPA Limited as its external auditors for the Year. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors. During the Year, the fee paid or payable to SHINEWING (HK) CPA Limited in respect of its statutory audit services provided to the Group was RMB705,000. Fees for non-audit services for the same period were RMB643,000, consisting of the review of the Group's financial results for the three months ended 31 March 2018, the six months ended 30 June 2018 and the nine months ended 30 September 2018 and internal control services performed by SHINEWING (HK) CPA Limited's affiliated firms.

# Corporate Governance Report (Continued)

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board recognises its responsibility to ensure the Company maintains an effective risk management and internal control systems, where it oversees the systems on an ongoing basis and ensures that the review of the effectiveness of the systems is adequate.

The Group has an Internal Audit (“IA”) function, which consists of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group’s daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

During the year ended 31 December 2018, the audit committee of the Company conducted an annual review based on the internal control framework developed by the IA function which comprises assessment on the financial reporting process and the bank and cash management procedure of the Group. Such internal control system adopted by the Company is compatible with the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) 2013 framework. This framework enables the Group to ensure the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are control environment, risk assessment, control activities, information and communication, and monitoring.

The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group’s business environment.

The Group adopts a risk management system which manages the risks associated with its business and operations. The system comprises the following phases:

- Risk identification
- Risk analysis
- Risk evaluation
- Risk treatment
- Risk monitoring and reporting

Based on the IA function’s rigorous evaluation, no significant deficiencies were identified in the Group’s operation. The Company’s audit committee reviewed the internal control review report and the Company’s risk management and internal control systems for the Year, and believed that they were effective and adequate. The Board also assessed the effectiveness of internal control systems by considering the internal control review report and reviews performed by the audit committee and concurred the same. The Company will perform ongoing assessment to identify material risk factors and take measures to manage these risks on a regular basis. In any case, reviews on risk management and internal control system are conducted annually.



## Corporate Governance Report (Continued)

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been adopted from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- restricting the access of information to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;
- confidentiality agreements are in place when the Group enters into significant negotiations;
- the Executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors; and
- the Company has retained compliance adviser and legal adviser during the Year and have consulted them in the event where inside information may have arisen.

### GENERAL MEETING WITH SHAREHOLDERS

One general meeting had been held during the Year and the Company's forthcoming AGM will be held on 22 May 2019.

### THE SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 64 of the articles of association of the Company, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Joint Company Secretaries for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

In order to keep Shareholders well informed of the business activities and direction of the Group, information about the Group has been provided to the Shareholders through financial reports and announcements. The Company has established its own corporate website ([www.goldenclassicbio.com](http://www.goldenclassicbio.com)) as a channel to facilitate effective communication with its Shareholders and the public. The Company will continue to enhance communications and relationships with its Shareholders and investors. A shareholders communication policy was adopted on 17 June 2016 to comply with code provision E.1.4 of the Code.

Shareholders, investors and interested parties can make enquiries directly to the Company through the following e-mail: [Xiangdongliang@126.com](mailto:Xiangdongliang@126.com)

## Corporate Governance Report (Continued)

### **PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD**

Shareholders may at any time send their enquiries and concerns to the Board in writing. Contact details are as follows:

Address: Flat B, 19/F, Times Media Centre, 133 Wan Chai Road, Wan Chai, Hong Kong  
Tel: 3152 3579  
E-mail: Xiangdongliang@126.cm

Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board committees of the Company, where appropriate, to answer the Shareholders' questions.

### **PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS**

Pursuant to Article 113 of the articles of association of the Company, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The period for lodgment of the notices required under the articles of association of the Company will commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

### **SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS**

There has been no significant changes in the constitutional documents of the Company during the Year.

# Environmental, Social and Governance Report

## INTRODUCTION

The Group is a daily household products producer with a strategic business focus on the production and sales of oral care products which mainly include functional toothpastes, as well as leather care products and household products in the PRC. The headquarter and production facilities of the Group are based in Jiangyin City, Jiangsu Province, the PRC.

The Group highly recognises its corporate social responsibility owed to the society. The Group has always considered promoting high environmental and social standards in the daily operations as one of its core commitments. As such, the Group has been adopting environment and social friendly measures and keeping up with the industry best practice with a view to achieve sustainability and transparency, and to avoid negative environmental and social impacts arising from its business operations.

## SCOPE AND REPORTING PERIOD

As such, the Group is pleased to present this environmental, social and governance (“ESG”) report (this “Report”). This ESG Report captures the Group’s ESG performance for the Year, and it is prepared in accordance with the requirements set out in the ESG Reporting Guide, Appendix 20 of the GEM Listing Rules.

This ESG Report focuses on the Group’s operation at its headquarter, and production facilities in respect of their ESG performances for the Year, unless otherwise stated. The Group has complied with the “comply or explain” provisions set out in the ESG Reporting Guide for the Year.

## STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group has maintained close communication with its stakeholders since Listing. For this ESG report, the Group undertook regular assessments that included input from internal and external stakeholders, including investors, Shareholders, and employees of the Group to identify and discuss important issues that have a direct bearing on its operations and potential growth.

## STAKEHOLDERS’ FEEDBACK

The Group welcomes stakeholders’ feedback on its ESG approach and performance. Please send your comments and feedback on the ESG Report or on the Group’s ESG approach to [xiangdongliang@126.com](mailto:xiangdongliang@126.com).

# Environmental, Social and Governance Report (Continued)

## A. ENVIRONMENT

To demonstrate the Group's commitment to sustainable development and its compliance with the applicable laws and regulations in relation to environmental protection, the Group endeavours to minimise the environmental impact of business activities and to promote the concept of green operation and green office practice.

The Group has incorporated measures to minimise energy consumption and environmental pollution from its production activities, such as adopting environmentally friendly methods of waste disposal, and providing regular trainings to employees to increase their environmental awareness. The Group has also appointed a dedicated employee to closely monitor the Group's compliance with the applicable laws and regulations, and to review and update the Group's internal environmental protection policy (the "Environmental Protection Policy"). The employee is also obliged to make regular reports to the management team, where the management team has the overall responsibility for overseeing matters concerning environmental protection within the Group. The management team reviews the Group's environmental compliance on a quarterly basis and deals with environmental pollution accidents on occurrence.

The Group maintains the environmental management system in conformity with the internationally applied environmental protection system requirement – ISO14001:2004. The Group has been accredited by the certification body recognised by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (國家質量監督檢驗檢疫總局) (the "AQSIQ") since 2009. In 2018, the Group was recognised as an advanced enterprise in ecological civilization construction (生態文明建設先進企業) by the Jiangyin Environmental Protection Committee\* (江陰市環境保護委員會) under the appraisal system.

\* English names are translated for identification purpose only

## EMISSIONS

The carbon footprints arising from the Group's daily operations is primarily from emissions of a small amount of waste water, solid waste, and to a lesser extent, gas. To comply with the applicable laws and regulations, and the Group's Environmental Protection Policy, the Group has been conducting regular assessments on air and greenhouse gas emissions of the production facilities, and on the handling of hazardous and non-hazardous waste disposal against the relevant national standards. In accordance with relevant environmental laws and regulations and our relevant environmental policies, the Group must ensure that national emissions standards are met. The applicable PRC national environmental laws and regulations also require the payment of fees in connection with activities that involve the discharge of waste materials. Fines and other penalties will be imposed on facilities that threaten the environment. During the Year, the Group possessed the necessary pollutant discharging licences issued by competent environment protection authorities for discharging waste water, solid waste and gas.

## Environmental, Social and Governance Report (Continued)

The key performance index (“KPI”) of the Group for the Year is as follows:

### Air emissions

The Group did not generate much air emissions from its production. The air pollutants generated by the Group included nitrogen oxide (“NO<sub>x</sub>”), sulphur oxide (“SO<sub>x</sub>”) and particulate matters (“PM”), which arose primarily from the petroleum and diesel consumption for transportation. During the Year, the air emissions data is as follows:

| Categories                                       | Quantity | Unit | Intensity<br>– Unit per<br>employees |
|--------------------------------------------------|----------|------|--------------------------------------|
| <b>Nitrogen oxide (NO<sub>x</sub>) emissions</b> |          |      |                                      |
| Emissions from petroleum and diesel consumption  | 458.49   | kg   | 1.576                                |
| <b>Sulphur oxide(SO<sub>x</sub>) emissions</b>   |          |      |                                      |
| Emissions from petroleum and diesel consumption  | 0.97     | kg   | 0.003                                |
| <b>Particulate matters (PM) emissions</b>        |          |      |                                      |
| Emissions from petroleum and diesel consumption  | 44.99    | kg   | 0.155                                |

## Environmental, Social and Governance Report (Continued)

### Greenhouse gas emissions

The consumption of electricity and steam in the Group's production facilities and the office, and the consumption of petroleum and diesel for transportation constitute the major sources of greenhouse gas ("GHG") emissions of the Group. During the Year, the GHG emissions data is as follows:

| Categories                                                | Quantity        | Unit          | Intensity<br>– Unit per<br>employees |
|-----------------------------------------------------------|-----------------|---------------|--------------------------------------|
| <b>Carbon dioxide emissions</b>                           |                 |               |                                      |
| Direct GHG emission from operation                        | 487.47          | tonnes        | 1.675                                |
| Direct GHG emission from petroleum and diesel consumption | 156.68          | tonnes        | 0.538                                |
| Indirect GHG emission from electricity consumption        | 1733.41         | tonnes        | 5.957                                |
| Indirect GHG emission from steam consumption              | 687.5           | tonnes        | 2.363                                |
| Indirect GHG emission from flight travels                 | 27.03           | tonnes        | 0.093                                |
| Less: Deduction of GHG emission from planting trees       | (3.15)          | tonnes        | (0.011)                              |
| <b>Total carbon dioxide emissions</b>                     | <b>3,088.94</b> | <b>tonnes</b> | <b>10.615</b>                        |
| <b>Methane</b>                                            |                 |               |                                      |
| Direct GHG emission from operation                        | 4.82            | kg            | 0.017                                |
| Direct GHG emission from petroleum and diesel consumption | 13.23           | kg            | 0.045                                |
| <b>Total methane emissions</b>                            | <b>18.04</b>    | <b>kg</b>     | <b>0.062</b>                         |
| <b>Nitrous oxide</b>                                      |                 |               |                                      |
| Direct GHG emission from operation                        | 1.52            | kg            | 0.005                                |
| Direct GHG emission from petrol and diesel consumption    | 42.97           | kg            | 0.148                                |
| <b>Total nitrous oxide emissions</b>                      | <b>44.49</b>    | <b>kg</b>     | <b>0.153</b>                         |

Apart from the launch of initiatives mentioned under the heading "Use of Resources", the Environmental Protection Policy also incorporates measures to reduce GHG emissions, such as:

- encouraging employees to use telephone conference to replace business trips;
- recommending employees to choose direct flights to reduce GHG emissions for unavoidable business trips; and
- setting up charging stations to encourage employees to purchase electric vehicles.



## Environmental, Social and Governance Report (Continued)

During the Year, approximately 25% of the total electricity consumed by the Group was generated by solar power, as the Group strives to use clean and renewable energy to protect the environment. As a result, direct GHG emission from the Group's operation dropped around 3.62% compared with 2017.

Looking forward, the Group will continue to adopt various measures to reduce GHG emissions.

### Waste Management

During the Year, the Group generated a small volume of waste which includes hazardous waste and non-hazardous waste. The hazardous waste generated from the daily operation of the Group mainly consisted of containers and packaging bags of chemicals, whereas the non-hazardous waste included general unrecyclable waste and paper used for operation, sales and marketing purposes.

#### *Hazardous waste produced*

The consumption volume of the hazardous waste produced by the Group for the Year is as follows:

| Categories                  | Quantity | Unit   | Intensity<br>– Unit per<br>employees |
|-----------------------------|----------|--------|--------------------------------------|
| Containers of chemicals     | 0.1795   | tonnes | 0.0006                               |
| Packaging bags of chemicals | 1.7964   | tonnes | 0.0062                               |

#### *Non-hazardous waste produced*

The consumption volume of the non-hazardous waste produced by the Group for the Year is as follows:

| Categories                 | Quantity | Unit   | Intensity<br>– Unit per<br>employees |
|----------------------------|----------|--------|--------------------------------------|
| Paper                      | 2.08     | tonnes | 0.007                                |
| General unrecyclable waste | 45       | tonnes | 0.155                                |

During the Year, the Group has engaged a professional hazardous waste management company to dispose the Group's hazardous waste to avoid potential misplacement of hazardous waste. For non-hazardous waste, the general unrecyclable waste is handled by a local waste management company on daily basis. In addition, the carton containers made by paper would normally be reused for temporary storage during the production process before being disposed of at landfills. These measures have successfully reduced the volume of the Group's hazardous and non-hazardous waste.

During the Year, the volume of paper and unrecyclable waste consumed by the Group reduced approximately 4.6% and 62.5%, respectively, compared to 2017.

## Environmental, Social and Governance Report (Continued)

### USE OF RESOURCES

The resources used by the Group were principally attributed to electricity and water consumed at its production facilities and office, and the petroleum and diesel consumed for transportation. The Group also used paper and plastics as the packaging materials of the finished products. The carton containers made by paper would normally be reused for temporary storage during the production process before disposed of at landfills. The Group endeavours to comply with the environmental laws and regulations to achieve efficient use of resources and to reduce waste and emissions. The Environmental Protection Policy encourages employees to reduce the use of resources and to promote efficient use of resources, some of the policies include:

- turning off unnecessary or unused lights and electronic appliances;
- using independent lighting and air-conditioning for different rooms;
- purchasing energy-efficient products and equipment;
- cleaning light fixtures and air conditioners regularly; and
- closely monitoring the utilisation of resources and reporting to senior management on this aspect of performance.

### Energy consumption

The data of energy consumption which comprised the electricity and steam consumption in the production facilities, and the petroleum and diesel consumption from transportation for the Year is as follows:

| Categories           | Quantity  | Unit   | Intensity<br>– Unit per<br>employees |
|----------------------|-----------|--------|--------------------------------------|
| Electricity          | 2,463,975 | kWh    | 8,467.27                             |
| Steam                | 3,136     | tonnes | 10.78                                |
| Petroleum and diesel | 63,549    | litre  | 218.38                               |

## Environmental, Social and Governance Report (Continued)

### Water consumption

The data of the water consumption in the production facilities and the office for the Year is as follows:

| Categories | Quantity | Unit   | Intensity<br>– Unit per<br>employees |
|------------|----------|--------|--------------------------------------|
| Water      | 186,456  | tonnes | 640.74                               |

The water consumed was purchased from a local water company with reliable water supply. The Group did not have any issue in sourcing water during the Year. The Group has been encouraging employees to use resources properly in order to conserve water.

### Packaging materials used

The data of the use of packaging materials in the production facilities is as follows:

| Categories                     | Quantity | Unit   | Intensity<br>– Unit per<br>employees |
|--------------------------------|----------|--------|--------------------------------------|
| Paper carton container         | 1,250    | tonnes | 4.3                                  |
| Plastic                        | 1,225    | tonnes | 4.21                                 |
| Total packaging materials used | 2,475    | tonnes | 8.51                                 |

## THE ENVIRONMENT AND NATURAL RESOURCES

Due to the nature of the Group's business, apart from the above-mentioned emissions and resources usage, the Group did not have other significant impact on the environment and natural resources during its course of operation.

The Group has incorporated measures to minimise energy consumption and environmental pollution, such as adopting low energy consumption and pollution control techniques, implementing environmentally friendly methods of waste disposal, and providing regular trainings to employees to increase their environmental awareness. The Group has also appointed a dedicated employee to closely monitor the Group's compliance with the applicable laws and regulations, and to review and update the Environmental Protection Policy. The employee is also obliged to make regular reports to the management team, where the management team has the overall responsibility for overseeing matters concerning environmental protection within the Group. The management team reviews the Group's environmental compliance on a quarterly basis and deals with environmental pollution accidents on occurrence.

# Environmental, Social and Governance Report (Continued)

## B. SOCIAL

The Group believes that its employees are the most valuable assets as they contribute significantly to the Group's success. Accordingly, the Group places high values on employees' rights and welfare to maintain good labour relationship and promote employee loyalty. The Group has adopted comprehensive human resources policies to manage its employment and labour relationship. The policies outlined the Group's compensation, working hours, rest periods, and other benefits and welfare in compliance with the application laws and regulations. The Group provides competitive employee benefits and comprehensive training programs to encourage employees to achieve their potential and put their abilities to good use. Furthermore, the Group regularly holds staff activities to enhance employees' sense of belonging and to foster a friendly and harmonious working environment.

## EMPLOYMENT AND LABOR PRACTICES

### Employment

The Group had a total number of 291 employees, as of 31 December 2018 (2017: 307), where all of them were full-time employees.

The age and gender distribution of employees as of 31 December 2018 are as follows:

| Age    | 18-25 | 26-35 | 36-45 | 46-55 | Above 56 | Male | Female | Percentage |
|--------|-------|-------|-------|-------|----------|------|--------|------------|
| Gender | 3%    | 31%   | 37%   | 23%   | 5%       | 34%  | 66%    | 100%       |

The age and gender distribution of employees as of 31 December 2017 are as follows:

| Age    | 18-25 | 26-35 | 36-45 | 46-55 | Above 56 | Male | Female | Percentage |
|--------|-------|-------|-------|-------|----------|------|--------|------------|
| Gender | 5%    | 32%   | 36%   | 22%   | 5%       | 36%  | 64%    | 100%       |

In accordance with the Labor Law of the PRC, the Labor Contract Law of the PRC and other applicable laws and regulations, the Group has strictly managed employment and established the Measures Governing Employment and Appointment (Tentative), etc, so as to practically protect the legal rights and interests of the employees.

When hiring new employees, the Group gives equal opportunities to people of all nationalities, races, genders, age groups or background. The Group strives to maintain an equal working environment with a view to avoiding discrimination or unfair treatment of any kind. For example, we have 3 disabled employees. Our aim is to create a friendly working environment where people possessing different sets of values and backgrounds can work with vitality and apply their capabilities to the fullest.

The average weekly working hours of the Group's employees were not more than 40 hours and their working hours were not more than eight hours. The group also limited overtime work to less than 36 hours a month. In 2018, there were no labor disputes caused by violation of laws and regulations.

## Environmental, Social and Governance Report (Continued)

Employees are regarded as the most valuable assets of the Group as they are the driving force behind the continuous innovations of the Group. The Group rewards and recognises high-performing employees by providing a competitive remuneration package, implementing a sound performance appraisal system with appropriate incentives, promoting career development and progression, and providing comprehensive trainings. In order to maintain a fair working environment and safeguard the well-being of employees, the Group welcomes opinions and suggestions from employees to enhance workplace productivity, unity, and harmony.

During the Year, the Group strictly complied with the applicable laws and regulations in the PRC, and the relevant administrative rules and measures adopted by the Group were strictly enforced. These rules and regulations specify the requirements in relation to employment, labor relationships, employees' remunerations and welfare to protect the rights of employees.

During the Year, the Group also strictly complied with the laws, regulations and policies regarding the Social Insurance Law in the PRC. The Group has paid social insurances and housing funds in a timely manner to all the employees.

### Health and Safety

The Group is committed to protect employees' health and safety. Not only has the Group been complying with the applicable laws and regulations in the PRC with respect to occupational health and safety, the Group has successfully acquired the qualification of the internationally applied occupational health and safety management system of OHSAS18001:2007. Additionally, the Group places high emphasis on providing a safe workplace environment to employees, where the Group has been accredited by a certification body recognized by the AQSIQ since 2012, which demonstrates its workplace environment attests to a high safety standard. Moreover, the group provides its employees with annual health and medical welfare with the belief that the welfare could build a solid foundation for the safe operation of the Group. In 2018, two employees with serious diseases not due to working environment received special subsidies of RMB5,000. During the Year, the Group did not encounter any accidents in its course of operation.

### Development and Training

Skilled employees who are capable of meeting the demands of the dynamic industry is crucial to the success of the Group. Hence, providing comprehensive training is critical to improve the overall work performance and personal development of the employees. The Group has continued to perfect and modify the employee training management system, establish a multi-level training system, and create various learning opportunities for the employees. The Group is of the belief that these measures could enhance the employees' competence, problem-solving skills, technical knowledge and overall performance. The Group also encourages employees to identify their personal development objectives and encourage them to grow together with the Group.

The Group provides induction trainings for new employees, where experienced employees act as mentors to guide new employees. This arrangement has enhanced the communication among employees, encouraged team spirit at the workplace, improved the technical skills and managerial capability of the employees, and promoted the concept of continuous learning. The trainings have been customised in accordance with the roles and responsibilities of the employees, where they have been mainly provided in areas such as human resources management, managerial skills, legal affairs, risk management, project running, financial and auditing, technical research and development, environmental protection, and occupational health and safety, etc. The Group also provides the latest industry trends and updates on the laws and regulations which are relevant to the Group's operations or to the employees' job responsibilities.

## Environmental, Social and Governance Report (Continued)

### Labour Standards

The Group has adopted a recruitment management system, where verification of an applicant's identity and age is required during the recruitment process, and the recruitment of child labour is strictly prohibited. Every applicant is also required to provide document proof of academic qualifications and working experiences for verification purpose. Any applicant who is suspected to have false academic qualifications or working experiences will not be employed by the Group. From time to time, background checks of job candidates will be requested by the Group.

The Group provides its employees with a safe, healthy and comfortable working environment with adequate labour protection, reasonable remuneration and welfare. The Group was awarded the "Model Work's Home\*" in 2018 by Jiangyin Federation of Trade Unions\* (江陰市總工會).

The Group enters into employment contracts with its employees in accordance with the applicable laws and regulations in the PRC. The Group also prohibits forced labour.

## OPERATING PRACTICES

### Supply Chain Management

To provide top quality services to customers, the Group carefully sourced its raw materials, packaging materials and equipment with standardised procurement policies (the "Procurement Policy"). The Procurement Policy and the Group's comprehensive procurement management systems aim to screen out undesirable raw materials, packaging materials and equipment, and to enhance product formulation, product packaging, quality management system in factories, and transportation, etc.

Suppliers of raw materials, packaging materials and equipment have been selected based upon rational and clear criteria, such as business reputation, technical skills, quality consistency, and the supplier's compliance with national and/or industrial standards. The goal is for the Group to procure superior goods and services from the most competitive suppliers. Apart from sourcing, conducting proper risk management is equally important to the Group. Anticipating and mitigating the impact of an unexpected interruption in the delivery of goods and materials can keep the Group running smoothly.

The Group's research and development department sets out product specifications for the suppliers to follow, while the quality control department performs sample tests to ensure that goods and materials received by the Group are of desirable quality and in compliance with the requested specifications before they are accepted and transferred to the warehouse.

### Product Responsibility

The Group aims to achieve the highest possible standard for all the products sold. The Group has established product responsibility policies to assure product quality and safety (the "Product Responsibility Policy"). To ensure adherence to the Product Responsibility Policy, the Group has set up a dedicated quality control department with 8 employees, where all of them possess approximately 9 years of relevant industry experiences. They work in collaboration with the Group's research and development department, procurement department, and production and warehousing department to ensure that the products are of high quality and that the products comply with all legal and regulatory requirements pertaining to the health and safety, and other matters related to the Group's products.



## Environmental, Social and Governance Report (Continued)

The Group sends its products to product quality supervision and testing institutions for testing (i) before introducing new products to the market and (ii) on an annual basis. In addition, to ensure the safety and efficacy of the oral care products, the Group has engaged several reputable medical institutions to conduct clinical studies, toxicity tests and irritation tests on its oral care products. The test results demonstrated that the Group's oral care products could effectively suppress and prevent various oral problems and that the products would be safe for ordinary use by consumers.

The Group has obtained and maintained the necessary permits, licenses and approvals such as the National Industrial Product Manufacturer Licensing Certificates\* (全國工業品生產許可證). It also maintains quality control of the design, development and production procedure of its products in conformity with the internationally applied quality management systems requirement – ISO9001:2008. The Group was accredited by the certification body recognised by AQSIQ since 2003. The certifications demonstrate that the quality control system has met a high degree of assurance.

The Group recognises that the quality of the products is crucial to the goodwill and image of the brand. The sales department and quality control department of the Group are responsible for processing any comments and/or complaints from customers. The Group is committed to and places heavy emphasis on the feedback of the customers with regards to its products. The Group has implemented after-sales services, such as customer service hotlines, manuals on handling customers' complaints and follow-up procedures. The Group generally deals with and processes the complaints in cooperation with relevant distributors or retailers and provides replies and solutions within 5 days.

### Anti-corruption

The Group is a strong believer in upholding high ethical standard. It has strictly complied with the applicable laws and regulations in the PRC in relation to bribery, extortion, fraud and money-laundering,, including the Criminal Law of the PRC.

The Group requires employees to strictly conform to the code of business ethics developed by the Group and it strives to put any corruption bribery act to an end as stipulated in the employment contract and the relevant policies of the Group. Any conflict of interest must be reported to the Group's management. Employees who engage in business operations and represent the Company are strictly prohibited to use business opportunities or the inherent power of their positions for personal interest or benefit.

## COMMUNITY

### Community Investment

The Group always seeks to be a positive force in the communities in which it operates. It strives to maintain close interactions with the communities to make contributions to the development of the communities.

The Group believes that the creation of a peaceful community relies on the cooperation of people, corporations and the government. By working together with various community partners, the Group believes it can bring a tremendous impact on the sustainable development of the communities in which it operates.

The Group will actively encourage employees to volunteer their time and skills to benefit the communities. This gives employees the opportunity to learn more about the social and environmental concerns, and improves their understandings of the Group's corporate values.

The Group will consider to make donations to charitable organisations by the time the Group records significant profit after tax deduction and possesses sufficient cash flow. During the Year, the Group donated RMB400,000 to Fudan University in order to help poor students and retired professors.

\* English names are translated for identification purpose only

# Independent Auditor's Report



SHINEWING (HK) CPA Limited  
43/F., Lee Garden One  
33 Hysan Avenue  
Causeway Bay, Hong Kong

## **TO THE MEMBERS OF CHINA GOLDEN CLASSIC GROUP LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

### **OPINION**

We have audited the consolidated financial statements of China Golden Classic Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 57 to 127, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **BASIS FOR OPINION**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **KEY AUDIT MATTERS**

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

# Independent Auditor's Report (Continued)

## VALUATION OF INVENTORIES

Refer to notes 4 and 18 to the consolidated financial statements and the accounting policies on page 76.

### The key audit matter

We have identified valuation of inventories as a key audit matter because the Group has significant amount of inventories of approximately RMB39,759,000 representing 22% of the Group's current assets as at 31 December 2018.

The management of the Group reviews ageing analysis of inventories at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions.

### How the matter was addressed in our audit

Our audit procedures were designed to assess the judgement and assumptions used by the management in calculating the inventory provisions. We reviewed management's identification of slow moving and obsolete inventories, and critically assessed whether appropriate provisions had been established for slow moving and obsolete items. When considering management's assessment, we had also taken into account the most recent prices achieved on sales across the product lines and the adequacy of provision for inventories.

We considered the methodology and assumptions and compared to those used in prior years for consistency. We also assessed the reliability of management's assessment by considering the utilisation or release of previously recorded provisions and the net realisable value for all classes of inventories.

## RECOVERABILITY OF TRADE RECEIVABLES

Refer to notes 4 and 19 to the consolidated financial statements and the accounting policies on page 79-86.

### The key audit matter

We have identified recoverability of trade receivables as a key audit matter because the Group has significant amount of trade receivables of approximately RMB43,982,000 representing 24% of the Group's current assets as at 31 December 2018.

The measurement of impairment losses under expected loss model ("ECL") across all categories of financial assets requires management judgement, in particular, the impairment calculation adopted by the Group is based on the Group's historical credit loss experience and forward-looking information at the end of the reporting period. ECL are assessed collectively using a provision matrix with appropriate groupings.

The allowance for impairment of trade receivables is considered to be a matter of significance as it requires the application of judgement and use of subjective assumptions by management.

### How the matter was addressed in our audit

Our procedures were designed to review the management's assessment of the ECL and challenge the reasonableness of the methods and assumptions used to estimate the allowance for doubtful debts.

We have considered element of the ECL model that affect the judgements and estimates, including the internal credit grading model with individual grades of customers, criteria for assessing determination of forward looking information.

We have assessed the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded and assessing whether there was an indication of management bias when recognising loss allowances.

## Independent Auditor's Report (Continued)

### OTHER INFORMATION

The directors of the Company (the "Directors") are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

## Independent Auditor's Report (Continued)

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

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

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

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

## Independent Auditor's Report (Continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Tang Kwan Lai.

**SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

**Tang Kwan Lai**

Practising Certificate Number: P05299

Hong Kong

28 March 2019



# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

|                                                                      | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|----------------------------------------------------------------------|-------|-----------------|-----------------|
| Revenue                                                              | 7     | 276,634         | 267,444         |
| Cost of sales                                                        |       | (169,905)       | (145,322)       |
| Gross profit                                                         |       | 106,729         | 122,122         |
| Other income                                                         | 8     | 3,130           | 4,609           |
| Selling and distribution costs                                       |       | (59,330)        | (78,739)        |
| Administrative expenses                                              |       | (43,736)        | (39,336)        |
| Finance costs                                                        | 9     | (2,703)         | (2,552)         |
| Profit before tax                                                    |       | 4,090           | 6,104           |
| Income tax expenses                                                  | 10    | (2,455)         | (3,351)         |
| Profit for the year                                                  | 11    | 1,635           | 2,753           |
| Other comprehensive (expense) income for the year                    |       |                 |                 |
| <b>Item that may be reclassified subsequently to profit or loss:</b> |       |                 |                 |
| Exchange difference arising on translation of foreign operations     |       | (60)            | 726             |
| Total comprehensive income for the year                              |       | 1,575           | 3,479           |
| Earnings per share                                                   |       |                 |                 |
| – Basic and diluted (RMB cents)                                      | 13    | 0.16            | 0.28            |

# Consolidated Statement of Financial Position

As at 31 December 2018

|                                                                | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|----------------------------------------------------------------|-------|-----------------|-----------------|
| <b>Non-current assets</b>                                      |       |                 |                 |
| Property, plant and equipment                                  | 15    | 158,468         | 158,494         |
| Prepaid lease payments                                         | 16    | 18,017          | 18,466          |
| Intangible assets                                              | 17    | –               | –               |
| Deposits paid for acquisition of property, plant and equipment |       | 3,188           | 2,154           |
| Deferred tax assets                                            | 23    | 608             | 786             |
|                                                                |       | <b>180,281</b>  | 179,900         |
| <b>Current assets</b>                                          |       |                 |                 |
| Inventories                                                    | 18    | 39,759          | 42,635          |
| Trade and other receivables                                    | 19    | 80,022          | 62,514          |
| Prepaid lease payments                                         | 16    | 449             | 449             |
| Bank balances and cash                                         | 20    | 63,281          | 59,964          |
| Tax recoverable                                                |       | 637             | 21              |
|                                                                |       | <b>184,148</b>  | 165,583         |
| <b>Current liabilities</b>                                     |       |                 |                 |
| Trade and other payables                                       | 21    | 72,230          | 96,152          |
| Contract liabilities                                           | 21    | 23,277          | –               |
| Bank and other borrowings                                      | 22    | 60,000          | 41,707          |
|                                                                |       | <b>155,507</b>  | 137,859         |
| Net current assets                                             |       | <b>28,641</b>   | 27,724          |
| <b>Non-current liabilities</b>                                 |       |                 |                 |
| Deferred tax liabilities                                       | 23    | 400             | 450             |
| <b>Net assets</b>                                              |       | <b>208,522</b>  | 207,174         |
| <b>Capital and reserves</b>                                    |       |                 |                 |
| Share capital                                                  | 24(a) | 8,606           | 8,606           |
| Reserves                                                       |       | 199,916         | 198,568         |
|                                                                |       | <b>208,522</b>  | 207,174         |

The consolidated financial statements on pages 57 to 127 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

**Ms. Li Qiuyan**  
Director

**Mr. Tong Xing**  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

|                                                                        | Share<br>capital<br>RMB'000<br>Note 24 | Share<br>premium<br>RMB'000<br>Note 24 | Capital<br>reserve<br>RMB'000<br>Note 24 (b) (ii) | PRC<br>statutory<br>reserve<br>RMB'000<br>Note 24 (b) (i) | Translation<br>reserve<br>RMB'000 | Retained<br>profits<br>RMB'000 | Total<br>RMB'000 |
|------------------------------------------------------------------------|----------------------------------------|----------------------------------------|---------------------------------------------------|-----------------------------------------------------------|-----------------------------------|--------------------------------|------------------|
| At 1 January 2017                                                      | 8,606                                  | 74,386                                 | 15                                                | 42,841                                                    | 2,203                             | 75,644                         | 203,695          |
| Profit for the year                                                    | -                                      | -                                      | -                                                 | -                                                         | -                                 | 2,753                          | 2,753            |
| Other comprehensive expense<br>for the year:                           |                                        |                                        |                                                   |                                                           |                                   |                                |                  |
| Exchange difference arising on<br>translation of foreign<br>operations | -                                      | -                                      | -                                                 | -                                                         | 726                               | -                              | 726              |
| Total comprehensive income<br>for the year                             | -                                      | -                                      | -                                                 | -                                                         | 726                               | 2,753                          | 3,479            |
| Transfer to statutory reserve                                          | -                                      | -                                      | -                                                 | 57                                                        | -                                 | (57)                           | -                |
| At 31 December 2017                                                    | 8,606                                  | 74,386                                 | 15                                                | 42,898                                                    | 2,929                             | 78,340                         | 207,174          |

## Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2018

|                                                                     | Share<br>capital | Share<br>premium | Capital<br>reserve | PRC<br>statutory<br>reserve | Translation<br>reserve | Retained<br>profits | Total   |
|---------------------------------------------------------------------|------------------|------------------|--------------------|-----------------------------|------------------------|---------------------|---------|
|                                                                     | RMB'000          | RMB'000          | RMB'000            | RMB'000                     | RMB'000                | RMB'000             | RMB'000 |
|                                                                     | Note 24          | Note 24          | Note 24 (b) (ii)   | Note 24 (b) (i)             |                        |                     |         |
| At 31 December 2017 and<br>1 January 2018<br>(as originally stated) | 8,606            | 74,386           | 15                 | 42,898                      | 2,929                  | 78,340              | 207,174 |
| Effect on adoption of HKFRS9                                        | -                | -                | -                  | -                           | -                      | (227)               | (227)   |
| At 1 January 2018 (as restated)                                     | 8,606            | 74,386           | 15                 | 42,898                      | 2,929                  | 78,113              | 206,947 |
| Profit for the year                                                 | -                | -                | -                  | -                           | -                      | 1,635               | 1,635   |
| Other comprehensive income<br>for the year:                         |                  |                  |                    |                             |                        |                     |         |
| Exchange difference arising on<br>translation of foreign operations | -                | -                | -                  | -                           | (60)                   | -                   | (60)    |
| Total comprehensive income<br>for the year                          | -                | -                | -                  | -                           | (60)                   | 1,635               | 1,575   |
| At 31 December 2018                                                 | 8,606            | 74,386           | 15                 | 42,898                      | 2,869                  | 79,748              | 208,522 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

|                                                                           | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---------------------------------------------------------------------------|-----------------|-----------------|
| <b>OPERATING ACTIVITIES</b>                                               |                 |                 |
| Profit before tax                                                         | 4,090           | 6,104           |
| Adjustments for:                                                          |                 |                 |
| Depreciation for property, plant and equipment                            | 14,413          | 7,618           |
| Amortisation of intangible assets                                         | –               | 59              |
| Amortisation of prepaid lease payments                                    | 449             | 450             |
| Finance costs                                                             | 2,703           | 2,552           |
| Gain on disposal of property, plant and equipment                         | (36)            | (42)            |
| Bank interest income                                                      | (314)           | (206)           |
| Recognition (reversal) of impairment loss in respect of trade receivables | 26              | (883)           |
| Impairment loss reversal in respect of other receivables                  | –               | (72)            |
| Impairment loss reversal in respect of prepayment                         | –               | (18)            |
| Government grants                                                         | (676)           | (2,164)         |
| Operating cash flows before changes in working capital                    | 20,655          | 13,398          |
| Decrease (increase) in inventories                                        | 2,876           | (14,026)        |
| Increase in trade and other receivables                                   | (16,860)        | (506)           |
| (Decrease) increase in trade and other payables                           | (1,630)         | 25,873          |
| Increase in contract liabilities                                          | 2,340           | –               |
| Cash generated from operations                                            | 7,381           | 24,739          |
| Income taxes paid                                                         | (2,903)         | (3,249)         |
| <b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>                       | <b>4,478</b>    | <b>21,490</b>   |
| <b>INVESTING ACTIVITIES</b>                                               |                 |                 |
| Acquisition of property, plant and equipment                              | (20,605)        | (29,609)        |
| Addition in deposit for acquisition of property, plant and equipment      | 1,621           | –               |
| Repayment from independent third parties (note 19)                        | 349             | 539             |
| Advances to independent third parties (note 19)                           | (1,290)         | (870)           |
| Interest received                                                         | 314             | 206             |
| Proceeds from disposal of property, plant and equipment                   | 2,176           | 111             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                              | <b>(17,435)</b> | <b>(29,623)</b> |

## Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

|                                                                                    | <b>2018</b>     | 2017     |
|------------------------------------------------------------------------------------|-----------------|----------|
|                                                                                    | <b>RMB'000</b>  | RMB'000  |
| FINANCING ACTIVITIES                                                               |                 |          |
| Bank and other borrowings raised                                                   | <b>60,000</b>   | 39,451   |
| Government grants received                                                         | <b>676</b>      | 2,081    |
| Repayment of bank and other borrowings                                             | <b>(41,707)</b> | (49,253) |
| Interests paid                                                                     | <b>(2,703)</b>  | (2,552)  |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES                                       | <b>16,266</b>   | (10,273) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                               | <b>3,309</b>    | (18,406) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                                     | <b>59,964</b>   | 78,942   |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES                                            | <b>8</b>        | (572)    |
| CASH AND CASH EQUIVALENTS AT END OF YEAR,<br>represented by bank balances and cash | <b>63,281</b>   | 59,964   |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 1. GENERAL

China Golden Classic Group Limited (the “Company”) is an investment holding company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the manufacture and trading of oral care, leather care and household hygiene products.

The Company was incorporated in the Cayman Islands on 29 July 2015 as an exempted company with limited liability under the Cayman Companies Law, Chapter 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The address of its registered office and principal place of business is Flat B, 19/F, Times Media Centre, 133 Wan Chai Road, Wan Chai, Hong Kong. The Company’s shares were listed on GEM (formerly known as “Growth Enterprise Market”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The functional currency of the Company and the Group’s principal subsidiaries is HK\$ or Renminbi (“RMB”). As the Group mainly operates in the People’s Republic of China (the “PRC”), the directors of the Company consider that it is appropriate to present the consolidated financial statements in RMB.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”)

In the current year, the Group has applied, for its first time, the following new and amendments to HKFRSs, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

|                       |                                                                         |
|-----------------------|-------------------------------------------------------------------------|
| HKFRS 9               | Financial Instruments                                                   |
| HKFRS 15              | Revenue from Contracts with Customers and related Amendments            |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions      |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of Annual Improvements to HKFRSs 2014 – 2016 Cycle              |
| Amendments to HKAS 40 | Transfers of Investment Property                                        |
| HK(IFRIC)-Int 22      | Foreign Currency Transactions and Advance Consideration                 |

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (Continued)

### HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings where appropriate and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and related interpretations. Details are described below.

The Group’s accounting policies for its revenue streams are disclosed in detail in Note 3 below.

There was no impact of transition to HKFRS 15 on the retained earnings at 1 January 2018.

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of HKFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

|                          | <b>Carrying<br/>amounts<br/>previously<br/>reported as<br/>at 31 December<br/>2017</b> | <b>Impact on<br/>adoption of<br/>HKFRS 15</b> | <b>Carrying<br/>amount as<br/>restated at<br/>1 January 2018</b> |
|--------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------|------------------------------------------------------------------|
|                          | RMB’000                                                                                | RMB’000                                       | RMB’000                                                          |
| Trade and other payables | 96,152                                                                                 | (20,937)                                      | 75,215                                                           |
| Contract liabilities     | –                                                                                      | 20,937                                        | 20,937                                                           |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (Continued)

### HKFRS 15 Revenue from Contracts with Customers (Continued)

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of applying HKFRS 15 on the consolidated statement of financial position at 31 December 2018, by comparing the amounts reported under HKAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of HKFRS 15 did not have material impact on the Group’s operating, investing and financing cash flows.

- (a) Impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018:

|                                   | <b>As reported</b> | <b>Impact on</b> | <b>Amounts</b>    |
|-----------------------------------|--------------------|------------------|-------------------|
|                                   | RMB’000            | <b>adopting</b>  | <b>excluding</b>  |
|                                   |                    | <b>HKFRS 15</b>  | <b>impacts of</b> |
|                                   |                    | RMB’000          | <b>adopting</b>   |
|                                   |                    |                  | <b>HKFRS 15</b>   |
|                                   |                    |                  | RMB’000           |
| Revenue                           | 276,634            | 3,409            | 280,043           |
| Selling and distribution expenses | 59,330             | 3,409            | 62,739            |

Note: RMB3,409,000 related to promotion expenses for promotion activities performed by certain retail customers which have been included in selling and distribution expenses prior to application of HKFRS 15. Under HKFRS 15, this amount reduces revenue in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

- (b) Impact on the consolidated statement of financial position at 31 December 2018:

|                          | <b>As reported</b> | <b>Impact on</b> | <b>Amounts</b>    |
|--------------------------|--------------------|------------------|-------------------|
|                          | RMB’000            | <b>adopting</b>  | <b>excluding</b>  |
|                          |                    | <b>HKFRS 15</b>  | <b>impacts of</b> |
|                          |                    | RMB’000          | <b>adopting</b>   |
|                          |                    |                  | <b>HKFRS 15</b>   |
|                          |                    |                  | RMB’000           |
| Trade and other payables | 72,230             | 23,277           | 95,507            |
| Contract liabilities     | 23,277             | (23,277)         | –                 |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (Continued)

### HKFRS 9 Financial instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings as at 1 January 2018.

The Group’s accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in Note 3 below.

#### *Classification and measurement of financial instruments*

The directors of the Company reviewed and assessed the Group’s existing financial assets and financial liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of HKFRS 9 continued to be measured at amortised cost as were previously measured under HKAS 39.

#### *Loss allowance for expected credit losses (“ECL”)*

The adoption of HKFRS 9 has changed the Group’s accounting for impairment losses for financial assets by replacing HKAS 39’s incurred loss model with a forward-looking ECL approach. As at 1 January 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of HKFRS 9.

As at 1 January 2018, an additional allowance on the Group’s trade receivables of RMB267,000 have been recognised, thereby reducing the opening retained earnings of RMB267,000, net of their related deferred tax impact of RMB40,000.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (Continued)

### New and revised HKFRSs issued but not yet effective

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

|                                    |                                                                                                    |
|------------------------------------|----------------------------------------------------------------------------------------------------|
| HKFRS 16                           | Leases <sup>1</sup>                                                                                |
| HKFRS 17                           | Insurance Contracts <sup>3</sup>                                                                   |
| Amendments to HKFRS 3              | Definition of a Business <sup>5</sup>                                                              |
| HK(IFRIC)-Int 23                   | Uncertainty over Income Tax Treatments <sup>1</sup>                                                |
| Amendments to HKFRS 9              | Prepayment Features with Negative Compensation <sup>1</sup>                                        |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup> |
| Amendments to HKAS 1 and HKAS 8    | Amendments to Definition of Material <sup>2</sup>                                                  |
| Amendments to HKAS 19              | Plan Amendment, Curtailment or Settlement <sup>1</sup>                                             |
| Amendments to HKAS 28              | Long-term Interests in Associates and Joint Ventures <sup>1</sup>                                  |
| Amendments to HKFRSs               | Annual Improvements to HKFRSs 2015–2017 Cycle <sup>1</sup>                                         |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2020.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>5</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

The directors of the Company anticipate that, except as described below, the application of the new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (Continued)

### New and revised HKFRSs issued but not yet effective (Continued)

#### HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related Interpretations when it becomes effective.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB33,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Company are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under HKFRS 16. The directors of the Company expect that the adoption of HKFRS 16 will not have material impact on the Group’s result but lease commitments may be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the Group's accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control and until the date when the Group ceases to control the subsidiary.

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition

*Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15)*

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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

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

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

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

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.



## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

*Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15) (Continued)*

#### Contract assets and contract liabilities

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group manufactures and sells a range of oral care products, leather care products and household hygiene products to external customers.

Revenue from sale of goods is recognised at the point when control of the products has been transferred, being when the products are delivered to the customers' designated location and the customers have inspected and accepted the products. Customers have full discretion over the channel and price to sell the products, and there is no more unfulfilled obligation that could affect the acceptance of the products. The risks of obsolescence and loss have been transferred to the customers when either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group typically receives a deposit on acceptance of sale order, giving rise to a contract liability until the customer obtains control of the goods.

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sales. Because of the large size and low value of each individual product, the amounts of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. As a result, no accounting impact for refunds while applying HKFRS 15.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

*Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15) (Continued)*

Consideration payable to a customer

Consideration payable to a customer includes rebate for promotional activities at customers' location that the Group pays, or expects to pay, to the customer. Consideration payable to a customer also includes credit or other items that can be applied against amounts owed to the Group. The Group accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue as the payment is not exchange for distinct good or service that the customer transfers to the Group. The Group recognises such reduction of revenue when (or as) the later of either of the following events occurs:

- The Group recognises revenue for the transfer of the related goods or services to the customer; and
- The entity pays or promises to pay the consideration (even if the payment is conditional on a future event).

*Policy applicable to the year ended 31 December 2017*

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and amortised over the lease term on a straight-line basis.

### Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operation are translated into the presentation currency of the Company (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Borrowing costs

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

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

### Government grants

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

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

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

### Retirement benefits costs

Payments to the PRC local government defined contribution retirement scheme pursuant to the relevant labour rules and regulations in the PRC and the Mandatory Provident Fund Scheme (the "MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

### Short-term employee benefits

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation

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

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

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

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

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

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

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

Current and deferred taxes are recognised in profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Construction in progress includes property, plant and equipment in the course of construction for production, supply or administrative purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

### Inventories

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

When inventories are sold, the carrying amount of those inventories is recognised as cost of goods sold in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and cash equivalents

Cash and short-term deposits in the consolidated statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

*Under HKFRS 9 (applicable on or after 1 January 2018)*

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group's financial assets are classified as financial assets at amortised cost.

#### **Financial assets at amortised cost (debt instruments)**

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)*

Financial assets (Continued)

#### **Financial assets at amortised cost (debt instruments) (Continued)**

##### **(i) Amortised cost and effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 8).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)*

Financial assets (Continued)

#### **Impairment of financial assets**

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

#### **Significant increase in credit risk**

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)*

Financial assets (Continued)

#### **Impairment of financial assets (Continued)**

##### **Significant increase in credit risk (Continued)**

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definitions.

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

#### **Definition of default**

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than one to two years past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)*

Financial assets (Continued)

#### **Impairment of financial assets (Continued)**

##### **Credit-impaired financial assets**

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

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

##### **Write-off policy**

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two to three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)*

Financial assets (Continued)

#### **Impairment of financial assets (Continued)**

##### **Measurement and recognition of expected credit losses**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

##### **Derecognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)*

Financial liabilities and equity instruments

#### **Classification as debt or equity**

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

#### **Financial liabilities**

The Group's financial liabilities are subsequently measured at amortised cost using the effective interest method.

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

#### **Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

#### **Equity instruments**

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Under HKFRS 9 (applicable on or before 1 January 2018) (Continued)*

Financial liabilities and equity instruments (Continued)

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### **Effective interest method**

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

Interest income is recognised on an effective interest basis for debt instruments.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).



## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Under HKFRS 9 (applicable on or before 1 January 2018) (Continued)*

Financial instruments

#### **Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period or observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Under HKFRS 9 (applicable on or before 1 January 2018) (Continued)*

Financial instruments (Continued)

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

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

#### **Financial liabilities**

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

#### **Effective interest method**

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

Interest expense is recognised on an effective interest basis.

#### **Equity instruments**

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

#### **Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

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

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

### Ownership of the buildings

Despite the Group has paid the full purchase consideration as detailed in note 15, formal titles of certain of the Group's rights to the use of the buildings were not yet granted from the relevant government authorities. In the opinion of the directors of the Company, the absence of formal title to these buildings does not impair the value of the relevant assets and the ownership of the buildings to the Group.

### *Key sources of estimation uncertainty*

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Estimated allowance for inventories

The management of the Group reviews an ageing analysis of inventories at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions. As at 31 December 2018, the carrying amounts of inventories were approximately RMB39,759,000 (2017: RMB42,635,000), net of accumulated impairment loss of RMB3,300,000 (2017: RMB3,300,000).

### Impairment loss of trade receivables

Starting from 1 January 2018, the impairment provisions for trade receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, bases on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income. The ECL are assessed collectively using a provision matrix with appropriate groupings. At 31 December 2018, the carrying amount of trade receivables is approximately RMB43,689,000 (2017: RMB35,091,000), net of impairment loss of RMB470,000 (2017: RMB1,054,000 based on incurred loss model).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets comprising a cash-generating unit, as applicable. When events or changes in circumstances indicate that the carrying amount may not be recoverable, management will estimate the future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged to profit or loss. As at 31 December 2018, the carrying amounts of property, plant and equipment were approximately RMB158,468,000 (2017: RMB158,494,000). No impairment loss is required during the years ended 31 December 2018 and 2017.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to stakeholder through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged throughout the reporting period.

The capital structure of the Group consists of bank borrowings, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure of the Group periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through new share issues. The directors of the Company will also consider the raise of additional borrowings as additional capital.

The directors of the Company also endeavor to ensure the steady and reliable cash flows from the normal business operation.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 6. FINANCIAL RISK MANAGEMENT

### (a) Categories of financial instruments

|                                                                                                   | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Financial assets                                                                                  |                 |                 |
| Financial assets at amortised cost/loans and receivables<br>(including cash and cash equivalents) | <b>111,914</b>  | 100,290         |
| Financial liabilities                                                                             |                 |                 |
| Financial liabilities at amortised cost                                                           | <b>132,230</b>  | 116,922         |

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

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included credit risk, market risk (interest rate risk) and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Credit risk*

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

The credit risk of the Group mainly arises from cash and cash equivalents, trade and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 6. FINANCIAL RISK MANAGEMENT (Continued)

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

#### *Credit risk (Continued)*

As at 31 December 2017, impairment loss was recognised when there was objective evidence of impairment loss. Starting from 1 January 2018, for trade receivables and other receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate.

For other non-traded related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 6. FINANCIAL RISK MANAGEMENT (Continued)

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

*Credit risk (Continued)*

The Group's exposure to credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

| Category   | Description                                                                                                                                                                                     | Basis for recognising ECL          |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| Performing | For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1) | 12-month ECL                       |
| Doubtful   | For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)                                | Lifetime ECL – not credit impaired |
| Default    | Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)    | Lifetime ECL – credit impaired     |
| Write-off  | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery                                                              | Amount is written off              |

The credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades are as follows:

|                  | Internal credit rating | 12-month or lifetime ECL              | Gross carrying amount<br>RMB'000 | Loss allowance<br>RMB'000 | Net carrying amount<br>RMB'000 |
|------------------|------------------------|---------------------------------------|----------------------------------|---------------------------|--------------------------------|
| Trade receivable | Note                   | lifetime ECL (not credit – impaired)  | 43,982                           | (293)                     | 43,689                         |
| Trade receivable | Note                   | lifetime ECL (credit – impaired)      | 177                              | (177)                     | –                              |
| Other receivable | Performing             | 12 months ECL (not credit – impaired) | 4,944                            | –                         | 4,944                          |

Note: The Group has applied simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL.

As at 31 December 2018, the Group has concentration of credit risk as 13% (2017: 16%) and 44% of the total trade receivables (2017: 56%) was due from the Group's largest customer and the top five customers respectively.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for approximately 99% (2017: 99%) of the total trade receivables as at 31 December 2018.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 6. FINANCIAL RISK MANAGEMENT (Continued)

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

#### *Market risk*

##### Interest rate risk

As at 31 December 2018, the Group was exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 20 and 22 for details). It is the Group's policy to keep its bank balances and borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the RMB base deposit/lending rate stipulated by the People's Bank of China arising from the Group's RMB denominated bank balances and bank borrowings.

#### **Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings. Bank balances are excluded from sensitivity analysis as a reasonably possible change in interest rates is not expected to have a material impact to the Group's profit for the year. The sensitivity analysis is prepared assuming the bank borrowings outstanding at the end of each reporting period were outstanding for the whole year. The basis point increase or decrease used represents management's assessment of the reasonably possible change in interest rates.

For variable-rate bank borrowings, if the interest rates had been 200 basis points higher/lower and all other variables were held constant which was considered reasonably possible at the end of the respective reporting period, the Group's profit for the year ended 31 December 2018 would decrease/increase by approximately RMB1,020,000 (2017: decrease/increase by RMB709,000).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 6. FINANCIAL RISK MANAGEMENT (Continued)

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

#### Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including cash, current working capital and the raising of funds. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and longer term.

In the management of the liquidity risk, the Group obtains financing deemed adequate by the management to finance its operations.

The following table details the Group's remaining contractual maturities for their non-derivative financial liabilities, based on undiscounted cash flows of financial liabilities on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate that exists at the end of the reporting period.

Liquidity risk tables

|                          | <b>Within one<br/>year or on<br/>demand</b><br>RMB'000 | <b>Total<br/>undiscounted<br/>cash flows</b><br>RMB'000 | <b>Carrying<br/>amount</b><br>RMB'000 |
|--------------------------|--------------------------------------------------------|---------------------------------------------------------|---------------------------------------|
| At 31 December 2018      |                                                        |                                                         |                                       |
| Trade and other payables | <b>72,230</b>                                          | <b>72,230</b>                                           | <b>72,230</b>                         |
| Bank borrowings          | <b>62,075</b>                                          | <b>62,075</b>                                           | <b>60,000</b>                         |
|                          | <b>134,305</b>                                         | <b>134,305</b>                                          | <b>132,230</b>                        |
| At 31 December 2017      |                                                        |                                                         |                                       |
| Trade and other payables | 75,215                                                 | 75,215                                                  | 75,215                                |
| Bank borrowings          | 44,209                                                 | 44,209                                                  | 41,707                                |
|                          | 119,424                                                | 119,424                                                 | 116,922                               |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 6. FINANCIAL RISK MANAGEMENT (Continued)

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

#### *Liquidity risk (Continued)*

Bank loans with a repayment on demand clause are included in the “within one year or on demand” time band in the above maturity analysis. As at 31 December 2017, the aggregate carrying amounts of bank loans amounted to RMB14,207,000 (2018: nil). Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to RMB15,887,000 (2018: nil).

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

### (c) Fair values of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturities.

## 7. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments are as follows:

- (1) Oral care products segment reports manufacture and sales of oral care products including functional toothpaste, mouthwash, oral spray and toothbrush.
- (2) Leather care products segment reports manufacture and sales of leather care products including leather shoe care products and leather clothing care products.
- (3) Household hygiene products segment reports manufacture and sales of household hygiene products including surface cleaners, laundry care products, toilet care products and mould proof products

### Segment revenue and results

Segment revenue represents revenue derived from the sales of oral care, leather care, and household hygiene products.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

The followings are analysis of the Group's revenue and results by reportable and operating segments:

|                                            | <b>Oral care<br/>products</b><br>RMB'000 | <b>Leather care<br/>products</b><br>RMB'000 | <b>Household<br/>hygiene<br/>products</b><br>RMB'000 | <b>Total</b><br>RMB'000 |
|--------------------------------------------|------------------------------------------|---------------------------------------------|------------------------------------------------------|-------------------------|
| <b>For the year ended 31 December 2018</b> |                                          |                                             |                                                      |                         |
| Segment revenue for external customers     | <b>152,536</b>                           | <b>31,344</b>                               | <b>92,754</b>                                        | <b>276,634</b>          |
| Segment profit                             | <b>69,842</b>                            | <b>5,702</b>                                | <b>31,185</b>                                        | <b>106,729</b>          |
| Unallocated income                         |                                          |                                             |                                                      | <b>3,130</b>            |
| Unallocated expenses                       |                                          |                                             |                                                      | <b>(103,066)</b>        |
| Finance costs                              |                                          |                                             |                                                      | <b>(2,703)</b>          |
| Profit before tax                          |                                          |                                             |                                                      | <b>4,090</b>            |
| <b>For the year ended 31 December 2017</b> |                                          |                                             |                                                      |                         |
| Segment revenue for external customers     | 148,510                                  | 32,535                                      | 86,399                                               | 267,444                 |
| Segment profit                             | 80,932                                   | 12,914                                      | 28,276                                               | 122,122                 |
| Unallocated income                         |                                          |                                             |                                                      | 4,609                   |
| Unallocated expenses                       |                                          |                                             |                                                      | (118,075)               |
| Finance costs                              |                                          |                                             |                                                      | (2,552)                 |
| Profit before tax                          |                                          |                                             |                                                      | 6,104                   |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of selling and distribution costs, administrative expenses, other income and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments.

|                                                                                                     | 2018<br>RMB'000 | 2017<br>RMB'000 |
|-----------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>SEGMENT ASSETS</b>                                                                               |                 |                 |
| Jointly-shared by sales of oral care products, leather care products and household hygiene products | 299,771         | 284,712         |
| Unallocated                                                                                         | 64,658          | 60,771          |
| Total assets                                                                                        | <b>364,429</b>  | 345,483         |
| <b>SEGMENT LIABILITIES</b>                                                                          |                 |                 |
| Jointly-shared by sales of oral care products, leather care products and household hygiene products | 95,475          | 95,765          |
| Unallocated                                                                                         | 60,432          | 42,544          |
| Total liabilities                                                                                   | <b>155,907</b>  | 138,309         |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than bank balances and cash, deferred tax assets, certain other receivables, prepayments and tax recoverable as these assets are managed on a group basis and;
- all liabilities are allocated to operating segments other than, certain other payables, bank borrowings and deferred tax liabilities as these liabilities are managed on a group basis.

The Group's CODM is of the view that the Group's principal assets and liabilities are jointly used and shared by oral care products, leather care products and household hygiene products.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Other segment information

|                                                                                                                     | Jointly-shared<br>by oral care<br>products,<br>leather care<br>products and<br>household<br>hygiene<br>products<br>RMB'000 | Unallocated<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|------------------------|------------------|
| <b>Year ended 31 December 2018</b>                                                                                  |                                                                                                                            |                        |                  |
| Amounts included in the measure of segment profit or loss or segment assets:                                        |                                                                                                                            |                        |                  |
| Depreciation of property, plant and equipment                                                                       | 14,413                                                                                                                     | –                      | 14,413           |
| Amortisation of prepaid lease payments                                                                              | 449                                                                                                                        | –                      | 449              |
| Additions to non-current assets                                                                                     | 16,527                                                                                                                     | –                      | 16,527           |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results |                                                                                                                            |                        |                  |
| Bank interest income                                                                                                | –                                                                                                                          | (314)                  | (314)            |
| Gain on disposal of property, plant and equipment                                                                   | (36)                                                                                                                       | –                      | (36)             |
| Rental income from properties                                                                                       | (1,109)                                                                                                                    | –                      | (1,109)          |
| Rental income from equipment                                                                                        | (302)                                                                                                                      | –                      | (302)            |
| Government grants                                                                                                   | –                                                                                                                          | (676)                  | (676)            |
| Finance costs                                                                                                       | –                                                                                                                          | 2,703                  | 2,703            |
| Impairment loss in respect of trade receivables                                                                     | 26                                                                                                                         | –                      | 26               |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Other segment information (Continued)

|                                                                                                                           | Jointly-shared<br>by oral care<br>products,<br>leather care<br>products and<br>household<br>hygiene<br>products<br>RMB'000 | Unallocated<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|------------------------|------------------|
| <b>Year ended 31 December 2017</b>                                                                                        |                                                                                                                            |                        |                  |
| Amounts included in the measure of segment profit or loss<br>or segment assets:                                           |                                                                                                                            |                        |                  |
| Depreciation of property, plant and equipment                                                                             | 7,618                                                                                                                      | –                      | 7,618            |
| Amortisation of intangible assets                                                                                         | 59                                                                                                                         | –                      | 59               |
| Amortisation of prepaid lease payments                                                                                    | 450                                                                                                                        | –                      | 450              |
| Additions to non-current assets                                                                                           | 26,889                                                                                                                     | –                      | 26,889           |
| Amounts regularly provided to the chief operating<br>decision maker but not included in the measure of<br>segment results |                                                                                                                            |                        |                  |
| Bank interest income                                                                                                      | –                                                                                                                          | (206)                  | (206)            |
| Gain on disposal of property, plant and equipment                                                                         | (42)                                                                                                                       | –                      | (42)             |
| Rental income from properties                                                                                             | (899)                                                                                                                      | –                      | (899)            |
| Rental income from equipment                                                                                              | (299)                                                                                                                      | –                      | (299)            |
| Impairment loss reversal in respect of trade receivables                                                                  | (883)                                                                                                                      | –                      | (883)            |
| Impairment loss reversal in respect of other receivables                                                                  | (72)                                                                                                                       | –                      | (72)             |
| Impairment loss reversal in respect of prepayment                                                                         | (18)                                                                                                                       | –                      | (18)             |
| Government grants                                                                                                         | –                                                                                                                          | (2,164)                | (2,164)          |
| Finance costs                                                                                                             | –                                                                                                                          | 2,552                  | 2,552            |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Other segment information (Continued)

#### Geographical information

The Group's operations are mainly located in the PRC – the country of domicile and all of its non-current assets, are located in the PRC.

### Disaggregation of revenue

Information about the Group's revenue from external customers is presented based on the locations of customers.

|                                        | PRC<br>RMB'000 | Others<br>RMB'000 | Total<br>RMB'000 |
|----------------------------------------|----------------|-------------------|------------------|
| <b>Revenue from external customers</b> |                |                   |                  |
| Year ended 31 December 2018            | <b>273,266</b> | <b>3,368</b>      | <b>276,634</b>   |
| Year ended 31 December 2017            | 264,770        | 2,674             | 267,444          |

During the year ended 31 December 2018, all revenue were recognised at a point in time upon delivery.

Products were sold through (i) distributors which then distribute and sell them to retailers and/or sub-distributors; (ii) directly to retailers and; (iii) OEM customers who market such products under their brand names or resell them.

### Information about major customer

None of the customer accounted for 10% or more of aggregate revenue of the Group during both years.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 8. OTHER INCOME

|                                                          | 2018<br>RMB'000 | 2017<br>RMB'000 |
|----------------------------------------------------------|-----------------|-----------------|
| Rental income from properties*                           | 1,109           | 899             |
| Rental income from equipment                             | 302             | 299             |
| Bank interest income                                     | 314             | 206             |
| Government grants**                                      | 676             | 2,164           |
| Gain on disposal of property, plant and equipment        | 36              | 42              |
| Exchange gain, net                                       | 13              | -               |
| Impairment loss reversal in respect of trade receivables | -               | 883             |
| Impairment loss reversal in respect of other receivables | -               | 72              |
| Impairment loss reversal in respect of prepayment        | -               | 18              |
| Others                                                   | 680             | 26              |
|                                                          | <b>3,130</b>    | <b>4,609</b>    |

\* No material outgoings had been incurred for the rental income.

\*\* These government grants are awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development with no unfulfilled conditions.

## 9. FINANCE COSTS

|                             | 2018<br>RMB'000 | 2017<br>RMB'000 |
|-----------------------------|-----------------|-----------------|
| Interest on bank borrowings | 2,703           | 2,552           |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 10. INCOME TAX EXPENSES

|                               | 2018<br>RMB'000 | 2017<br>RMB'000 |
|-------------------------------|-----------------|-----------------|
| <b>Current tax</b>            |                 |                 |
| PRC Enterprise Income Tax     | 1,187           | 1,454           |
| Withholding tax on dividend   | 1,100           | 1,300           |
|                               | <b>2,287</b>    | 2,754           |
| <b>Deferred tax (note 23)</b> | <b>168</b>      | 597             |
|                               | <b>2,455</b>    | 3,351           |

- (a) Pursuant to the rules and regulations of the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the BVI.
- (b) No provision for Hong Kong Profits Tax has been made for the subsidiaries established in Hong Kong as the subsidiaries did not have any assessable profits subject to Hong Kong Profits Tax during the reporting period.
- (c) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries registered in the PRC is 25% from 1 January 2008 onwards. The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.
- (d) One of the Group's subsidiaries registered in the PRC is recognised as a High and New-technology Enterprise which has been granted tax concessions by the local tax bureau and is entitled to PRC Enterprise Income Tax at concessionary rate of 15% during the reporting period.
- (e) One of the Group's subsidiaries registered in the PRC is recognised as a small and low profit enterprise which has been granted tax concessions by the local tax bureau and is entitled to PRC Enterprise Income Tax at concessionary rate of 10% during the reporting period.
- (f) According to the prevailing PRC Enterprise Income Tax ("EIT") law and its relevant regulations, non-PRC-resident enterprises are levied withholding tax at 10%, unless reduced by tax treaties or similar arrangements, on dividends from their PRC-resident investees for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax.

The directors of the Company determined that the management of the Group can control the quantum and timing of distribution of profits of their PRC subsidiaries. Deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 10. INCOME TAX EXPENSES (Continued)

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

|                                                                                | <b>2018</b>    | 2017    |
|--------------------------------------------------------------------------------|----------------|---------|
|                                                                                | <b>RMB'000</b> | RMB'000 |
| Profit before tax                                                              | <b>4,090</b>   | 6,104   |
| Tax at the domestic income tax rate of 25%                                     | <b>1,023</b>   | 1,526   |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | <b>303</b>     | 540     |
| Income tax on concessionary rate                                               | <b>(806)</b>   | (1,053) |
| Tax effect of expenses not deductible for tax purpose                          | <b>1,164</b>   | 724     |
| Additional deduction arising from research and development expenses            | <b>(279)</b>   | (136)   |
| Withholding tax on dividend                                                    | <b>1,050</b>   | 1,750   |
| Income tax expenses for the year                                               | <b>2,455</b>   | 3,351   |

Details of the deferred tax are set out in note 23.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

|                                                           | <b>2018</b>    | 2017    |
|-----------------------------------------------------------|----------------|---------|
|                                                           | <b>RMB'000</b> | RMB'000 |
| Auditor's remuneration                                    | <b>705</b>     | 675     |
| Depreciation of property, plant and equipment             | <b>14,413</b>  | 7,618   |
| Amortisation of intangible assets                         | –              | 59      |
| Amortisation of prepaid lease payments                    | <b>449</b>     | 450     |
| Cost of inventories recognised as expenses*               | <b>169,905</b> | 145,322 |
| Exchange (gain) losses, net                               | <b>(13)</b>    | 190     |
| Research and development costs recognised as an expense** | <b>8,864</b>   | 9,093   |
| Operating lease rentals in respect of rented premises     | <b>224</b>     | 719     |
| Impairment loss in respect of trade receivables           | <b>26</b>      | –       |
| Emoluments of directors and chief executive (note 14)     | <b>1,149</b>   | 1,016   |
| Other staff costs:                                        |                |         |
| Salaries and allowances                                   | <b>22,001</b>  | 25,268  |
| Contributions to retirement benefits schemes              | <b>4,471</b>   | 4,201   |
| Total staff costs                                         | <b>27,621</b>  | 30,485  |

\* Cost of inventories recognised as expenses for the year ended 31 December 2018 included staff costs of RMB8,697,000 (2017: RMB7,971,000) which had been included in the total staff costs disclosed above.

\*\* Research and development costs recognised as an expense for the year ended 31 December 2018 included staff costs of RMB3,780,000 (2017: RMB2,938,000) which were also included in the total staff costs disclosure above.

## 12. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: nil).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 13. EARNINGS PER SHARE

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

### Earnings

|                                                                  | <b>2018</b><br><b>RMB'000</b> | 2017<br>RMB'000 |
|------------------------------------------------------------------|-------------------------------|-----------------|
| Earnings for the purpose of basic and diluted earnings per share | <b>1,635</b>                  | 2,753           |

### Number of shares

|                                                                                   | <b>2018</b><br><b>'000</b> | 2017<br>'000 |
|-----------------------------------------------------------------------------------|----------------------------|--------------|
| Number of ordinary shares for the purpose of basic and diluted earnings per share | <b>1,000,000</b>           | 1,000,000    |

Since there are no potential dilutive shares in issue during the years ended 31 December 2018 and 2017, basic and diluted earnings per share are the same for both years.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 14. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES

The emoluments paid or payable to the directors of the Company, which include the chief executive of the Group, were as follows:

| For the year ended<br>31 December 2018                                                                                                                                | Executive directors         |                             |                              | Independent non-executive directors |                                |                                | Total<br>RMB'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|------------------------------|-------------------------------------|--------------------------------|--------------------------------|------------------|
|                                                                                                                                                                       | Ms. Li<br>Qiuyan<br>RMB'000 | Mr. Tong<br>Xing<br>RMB'000 | Ms. Du<br>Yongwei<br>RMB'000 | Mr. Tang<br>Wai Yau<br>RMB'000      | Mr. Ye<br>Jingzhong<br>RMB'000 | Mr. Qian<br>Zaiyang<br>RMB'000 |                  |
| Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings                                 |                             |                             |                              |                                     |                                |                                |                  |
| Fees                                                                                                                                                                  | -                           | -                           | -                            | 118                                 | 60                             | 60                             | 238              |
| Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings |                             |                             |                              |                                     |                                |                                |                  |
| Other emoluments                                                                                                                                                      |                             |                             |                              |                                     |                                |                                |                  |
| Salaries                                                                                                                                                              | 441                         | 267                         | 114                          | -                                   | -                              | -                              | 822              |
| Contributions to retirement benefits schemes                                                                                                                          | -                           | 70                          | 19                           | -                                   | -                              | -                              | 89               |
| <b>Total emoluments</b>                                                                                                                                               | <b>441</b>                  | <b>337</b>                  | <b>133</b>                   | <b>118</b>                          | <b>60</b>                      | <b>60</b>                      | <b>1,149</b>     |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 14. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES (Continued)

| For the year ended<br>31 December 2017                                                                                                                                | Executive directors |            |           | Independent non-executive directors |           |           | Total<br>RMB'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------|-----------|-------------------------------------|-----------|-----------|------------------|
|                                                                                                                                                                       | Ms. Li              | Mr. Tong   | Ms. Du    | Mr. Tang                            | Mr. Ye    | Mr. Qian  |                  |
|                                                                                                                                                                       | Qiuyan              | Xing       | Yongwei   | Wai Yau                             | Jingzhong | Zaiyang   |                  |
|                                                                                                                                                                       | RMB'000             | RMB'000    | RMB'000   | RMB'000                             | RMB'000   | RMB'000   | RMB'000          |
| Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings                                 |                     |            |           |                                     |           |           |                  |
| Fees                                                                                                                                                                  | -                   | -          | -         | 152                                 | 60        | 60        | 272              |
| Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings |                     |            |           |                                     |           |           |                  |
| Other emoluments                                                                                                                                                      |                     |            |           |                                     |           |           |                  |
| Salaries                                                                                                                                                              | 353                 | 247        | 68        | -                                   | -         | -         | 668              |
| Contributions to retirement benefits schemes                                                                                                                          | -                   | 57         | 19        | -                                   | -         | -         | 76               |
| <b>Total emoluments</b>                                                                                                                                               | <b>353</b>          | <b>304</b> | <b>87</b> | <b>152</b>                          | <b>60</b> | <b>60</b> | <b>1,016</b>     |

Mr. Tong Xing is the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as chief executive.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 14. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES (Continued)

Of the five individuals with the highest emoluments in the Group, two were directors (2017: two) (including the chief executive) of the Company for the year ended 31 December 2018, whose emoluments are included in the disclosures above. The emoluments of the remaining individuals for the years ended 31 December 2018 and 2017 were as follows:

|                                              | <b>2018</b>    | 2017    |
|----------------------------------------------|----------------|---------|
|                                              | <b>RMB'000</b> | RMB'000 |
| Salaries and allowances and other benefits   | <b>714</b>     | 1,093   |
| Contributions to retirement benefits schemes | <b>61</b>      | 62      |
|                                              | <b>775</b>     | 1,155   |

Their emoluments fell within the band of nil to HK\$1,000,000 (equivalent to nil to RMB881,000) (2017: nil to HK\$1,000,000 (equivalent to nil to RMB844,000)) for the year.

No emoluments were paid by the Group to any of the directors (including the chief executive) or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years.

No directors (including the chief executive) or the five highest paid individuals waived or agreed to waive any emoluments in both years.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 15. PROPERTY, PLANT AND EQUIPMENT

|                                        | Buildings      | Leasehold improvements | Motor Vehicles | Plant and machinery | Office equipment | Construction in progress | Total          |
|----------------------------------------|----------------|------------------------|----------------|---------------------|------------------|--------------------------|----------------|
|                                        | RMB'000        | RMB'000                | RMB'000        | RMB'000             | RMB000           | RMB'000                  | RMB'000        |
| <b>COST</b>                            |                |                        |                |                     |                  |                          |                |
| At 1 January 2017                      | 52,242         | 8,693                  | 6,570          | 25,156              | 4,193            | 88,509                   | 185,363        |
| Additions                              | -              | 751                    | 879            | 2,897               | 837              | 21,525                   | 26,889         |
| Reclassification upon completion       | 66,241         | 8,031                  | -              | 11,595              | 2,670            | (88,537)                 | -              |
| Disposals                              | -              | -                      | (397)          | -                   | -                | -                        | (397)          |
| At 31 December 2017 and 1 January 2018 | <b>118,483</b> | <b>17,475</b>          | <b>7,052</b>   | <b>39,648</b>       | <b>7,700</b>     | <b>21,497</b>            | <b>211,855</b> |
| Additions                              | -              | <b>7,553</b>           | <b>562</b>     | <b>2,309</b>        | <b>2,050</b>     | <b>4,053</b>             | <b>16,527</b>  |
| Reclassification upon completion       | -              | -                      | -              | <b>14,002</b>       | -                | <b>(14,002)</b>          | -              |
| Disposals                              | -              | -                      | <b>(153)</b>   | <b>(3,017)</b>      | <b>(47)</b>      | -                        | <b>(3,217)</b> |
| At 31 December 2018                    | <b>118,483</b> | <b>25,028</b>          | <b>7,461</b>   | <b>52,942</b>       | <b>9,703</b>     | <b>11,548</b>            | <b>225,165</b> |
| <b>ACCUMULATED DEPRECIATION</b>        |                |                        |                |                     |                  |                          |                |
| At 1 January 2017                      | 20,584         | 8,537                  | 3,986          | 10,822              | 2,142            | -                        | 46,071         |
| Charge for the year                    | 2,896          | 1,376                  | 769            | 1,819               | 758              | -                        | 7,618          |
| Eliminated on disposals                | -              | -                      | (328)          | -                   | -                | -                        | (328)          |
| At 31 December 2017 and 1 January 2018 | <b>23,480</b>  | <b>9,913</b>           | <b>4,427</b>   | <b>12,641</b>       | <b>2,900</b>     | -                        | <b>53,361</b>  |
| Charge for the year                    | <b>5,576</b>   | <b>2,786</b>           | <b>803</b>     | <b>3,779</b>        | <b>1,469</b>     | -                        | <b>14,413</b>  |
| Eliminated on disposals                | -              | -                      | <b>(145)</b>   | <b>(887)</b>        | <b>(45)</b>      | -                        | <b>(1,077)</b> |
| At 31 December 2018                    | <b>29,056</b>  | <b>12,699</b>          | <b>5,085</b>   | <b>15,533</b>       | <b>4,324</b>     | -                        | <b>66,697</b>  |
| <b>CARRYING VALUES</b>                 |                |                        |                |                     |                  |                          |                |
| At 31 December 2018                    | <b>89,427</b>  | <b>12,329</b>          | <b>2,376</b>   | <b>37,409</b>       | <b>5,379</b>     | <b>11,548</b>            | <b>158,468</b> |
| At 31 December 2017                    | 95,003         | 7,562                  | 2,625          | 27,007              | 4,800            | 21,497                   | 158,494        |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation is recognised so as to write off the cost of the above items of property, plant and equipment less their residual values, if any, using the straight-line basis over their estimated useful lives at the following rates per annum:

|                        |                                                  |
|------------------------|--------------------------------------------------|
| Buildings              | 5% or over the lease term, whichever is shorter  |
| Leasehold improvements | 20% or over the lease term, whichever is shorter |
| Motor vehicles         | 20%                                              |
| Plant and machinery    | 10%                                              |
| Office equipment       | 20%                                              |

As at 31 December 2018, the Group's buildings with carrying amount amounting to approximately RMB14,678,000 (2017: RMB15,884,000) were pledged to secure banking facilities granted to the Group (note 22).

At 31 December 2018 and 2017, the Group has not obtained building ownership certificates for certain properties with a carrying amount of approximately RMB1,707,000 (2017: RMB1,719,000). In the opinion of the directors of the Company, the absence of formal titles to these properties does not impair their values to the Group as the Group has paid full consideration for acquiring the relevant properties and the probability of being evicted on the ground of an absence of formal title is remote.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 16. PREPAID LEASE PAYMENTS

|                                                                          | RMB'000              |
|--------------------------------------------------------------------------|----------------------|
| <b>COST</b>                                                              |                      |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | <u>25,225</u>        |
| <b>AMORTISATION</b>                                                      |                      |
| At 1 January 2017                                                        | 5,860                |
| Amortisation for the year                                                | <u>450</u>           |
| At 31 December 2017 and 1 January 2018                                   | 6,310                |
| Amortisation for the year                                                | <u>449</u>           |
| At 31 December 2018                                                      | <u>6,759</u>         |
| <b>CARRYING VALUES</b>                                                   |                      |
| At 31 December 2018                                                      | <u><u>18,466</u></u> |
| At 31 December 2017                                                      | <u><u>18,915</u></u> |

As at 31 December 2018, the prepaid lease payments of the Group with carrying amount amounted to approximately RMB6,471,000 (2017: RMB6,650,000) were pledged to secure banking facilities granted to the Group (note 22).

The carrying amount of prepaid lease payments of the Group analysed for reporting purposes as:

|                    | 2018<br>RMB'000      | 2017<br>RMB'000 |
|--------------------|----------------------|-----------------|
| Current assets     | 449                  | 449             |
| Non-current assets | <u>18,017</u>        | 18,466          |
|                    | <u><u>18,466</u></u> | <u>18,915</u>   |

The prepayments for land use rights in the PRC are amortised over 50 years on a straight-line basis.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 17. INTANGIBLE ASSETS

|                                                                          | <b>Trademarks</b><br>RMB'000 |
|--------------------------------------------------------------------------|------------------------------|
| <b>COST</b>                                                              |                              |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | 1,016                        |
| <b>AMORTISATION</b>                                                      |                              |
| At 1 January 2017                                                        | 957                          |
| Amortisation for the year                                                | 59                           |
| At 31 December 2017, 1 January 2018 and 31 December 2018                 | 1,016                        |
| <b>CARRYING VALUES</b>                                                   |                              |
| At 31 December 2018                                                      | –                            |
| At 31 December 2017                                                      | –                            |

The trademarks acquired by the Group was fully amortised. They remained in use by the Group during both years.

## 18. INVENTORIES

|                  | <b>2018</b><br>RMB'000 | 2017<br>RMB'000 |
|------------------|------------------------|-----------------|
| Raw materials    | 20,776                 | 21,238          |
| Work in progress | 461                    | 129             |
| Finished goods   | 18,522                 | 21,268          |
|                  | <b>39,759</b>          | 42,635          |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 19. TRADE AND OTHER RECEIVABLES

|                                                                  | 2018<br>RMB'000 | 2017<br>RMB'000 |
|------------------------------------------------------------------|-----------------|-----------------|
| Trade receivables                                                | 44,159          | 36,145          |
| Less: allowance for impairment of trade receivables              | (470)           | (1,054)         |
|                                                                  | <b>43,689</b>   | 35,091          |
| Deposits and other receivables                                   | 2,001           | 1,866           |
| Advances to employees                                            | 903             | 2,270           |
| Advances to independent third parties*                           | 2,040           | 1,099           |
| Less: allowance for impairment of deposits and other receivables | –               | –               |
|                                                                  | <b>4,944</b>    | 5,235           |
| Prepayments for operating expenses                               | 31,649          | 22,448          |
| Less: allowance for impairment of prepayments                    | (260)           | (260)           |
|                                                                  | <b>31,389</b>   | 22,188          |
|                                                                  | <b>80,022</b>   | 62,514          |

\* The advances were interest-free, unsecured and repayable within one year.

The Group does not hold any collateral over its trade receivables, deposits and other receivables.

The Group allows a credit period of 0 to 60 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice dates, which approximated the respective revenue recognition dates, at the end of the reporting period.

|                                      | 2018<br>RMB'000 | 2017<br>RMB'000 |
|--------------------------------------|-----------------|-----------------|
| 0 – 30 days                          | 31,510          | 24,364          |
| 31 – 60 days                         | 2,518           | 3,917           |
| 61– 90 days                          | 3,087           | 847             |
| Over 3 months but less than 6 months | 1,955           | 838             |
| Over 6 months but less than 1 year   | 906             | 5,125           |
| Over 1 year                          | 3,713           | –               |
|                                      | <b>43,689</b>   | 35,091          |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 19. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2017, an aged analysis of trade receivables presented based on past due dates is as follows:

|                              | 2017<br>RMB'000 |
|------------------------------|-----------------|
| Not yet past due             | 22,389          |
| 0 – 30 days                  | 1,975           |
| 31 – 60 days                 | 3,917           |
| 61 – 90 days                 | 847             |
| Overdue 3 months to 6 months | 838             |
| Overdue 6 months to 1 year   | 5,125           |
|                              | <u>35,091</u>   |

As at 31 December 2017, trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Included in the Group's trade receivables balances were RMB12,702,000 as at 31 December 2017 which were past due at the end of the reporting period for which the Group has not provided for impairment loss. Receivables that were past due but not impaired related to a number of independent customers with no recent history of default.

Included in the impairment on trade receivables are individually impaired trade receivables of RMB1,054,000 since the directors of the Company considered the prolonged outstanding balances were uncollectible.

Movement in the impairment on trade receivables:

|                          | 2017<br>RMB'000 |
|--------------------------|-----------------|
| At 1 January             | 1,937           |
| Reversal due to recovery | (883)           |
|                          | <u>1,054</u>    |
| At 31 December           | <u>1,054</u>    |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 19. TRADE AND OTHER RECEIVABLES (Continued)

Starting from 1 January 2018, the Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The Group considers the credit risk characteristic and the days past due of trade receivables to measure the expected credit losses. The Group considers the historical loss rates in the past three years and adjusts for forward looking macroeconomic data in calculating the expected credit loss rates.

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

As at 31 December 2018, the expected credit loss is determined using the provision matrix as follows:

|                                | Average<br>loss rate<br>% | Gross carrying<br>amount<br>RMB'000 | Impairment<br>loss allowance<br>RMB'000 |
|--------------------------------|---------------------------|-------------------------------------|-----------------------------------------|
| 0 – 30 days (not yet past due) | 0.14%                     | 31,546                              | 44                                      |
| 31 – 60 days                   | 0.36%                     | 2,526                               | 9                                       |
| 61– 90 days                    | 0.33%                     | 3,106                               | 10                                      |
| Overdue 3 months to 6 months   | 1.16%                     | 1,978                               | 23                                      |
| Overdue 6 months to 2 years    | 4.29%                     | 4,826                               | 207                                     |
|                                |                           | 43,982                              | 293                                     |
| Default receivables            | 100%                      | 177                                 | 177                                     |
|                                |                           | 44,159                              | 470                                     |

Movement in the impairment on trade receivables:

|                                   | Lifetime ECL<br>(not credit-<br>impaired)<br>RMB'000 | Lifetime ECL<br>(credit-<br>impaired)<br>RMB'000 | Total<br>RMB'000 |
|-----------------------------------|------------------------------------------------------|--------------------------------------------------|------------------|
| At 31 December 2017 under HKAS 39 | –                                                    | 1,054                                            | 1,054            |
| Effect on adoption of HKFRS 9     | 267                                                  | –                                                | 267              |
| At 1 January 2018 (as restated)   | 267                                                  | 1,054                                            | 1,321            |
| Impairment loss for the year      | 26                                                   | –                                                | 26               |
| Written off as uncollectible      | –                                                    | (877)                                            | (877)            |
| At 31 December 2018               | 293                                                  | 177                                              | 470              |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 19. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the impairment on other receivables:

|                          | <b>2018</b><br><b>RMB'000</b> | 2017<br>RMB'000 |
|--------------------------|-------------------------------|-----------------|
| At 1 January             | –                             | 72              |
| Reversal due to recovery | –                             | (72)            |
| At 31 December           | –                             | –               |

For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 31 December 2018, advances to staff and independent third parties are not yet past due and there has been no significant increase in credit risk since initial recognition. As such, no loss allowance was made in 2018 as 12-month ECL is insignificant.

Movement in the impairment on prepayments:

|                          | <b>2018</b><br><b>RMB'000</b> | 2017<br>RMB'000 |
|--------------------------|-------------------------------|-----------------|
| At 1 January             | <b>260</b>                    | 278             |
| Reversal due to recovery | –                             | (18)            |
| At 31 December           | <b>260</b>                    | 260             |

Included in the impairment on prepayments are individually impaired prepayments of RMB260,000 as at 31 December 2018 (2017: RMB260,000) since the directors of the Company considered the prolonged outstanding balances cannot be utilised or recovered.

## 20. BANK BALANCES AND CASH

Cash at banks carried interest at floating rates based on market interest rate range from 0.01% to 0.385% for both 2018 and 2017. The fixed deposit carries fixed interest rate of 1.21% (31 December 2017: 1.21%) per annum.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 21. TRADE AND OTHER PAYABLES

|                                                           | <b>2018</b>    | 2017    |
|-----------------------------------------------------------|----------------|---------|
|                                                           | <b>RMB'000</b> | RMB'000 |
| Trade and bills payables                                  | <b>55,472</b>  | 57,555  |
| Receipts in advance                                       | –              | 20,937  |
| Accruals and other payables                               | <b>15,084</b>  | 14,563  |
| Payables for acquisition of property, plant and equipment | <b>1,674</b>   | 3,097   |
|                                                           | <b>72,230</b>  | 96,152  |
| Contract Liabilities                                      | <b>23,277</b>  | –       |

At 31 December 2017, receipts in advance of RMB20,937,000 represented the deposits received from customers prior to delivery of goods and were reclassified to contract liabilities at 1 January 2018 upon adoption of HKFRS 15. The entire balance was recognised as revenue during the year ended 31 December 2018. There was no revenue recognised in the current year that related to performance obligations that satisfied in a prior year. At 31 December 2018, the increase in contract liabilities is in line with the increase in sales transactions and consequently the Group received more deposits in 2018.

The following is an aged analysis of trade and bills payables presented based on the invoice date.

|                                      | <b>2018</b>    | 2017    |
|--------------------------------------|----------------|---------|
|                                      | <b>RMB'000</b> | RMB'000 |
| 0 – 30 days                          | <b>37,969</b>  | 39,550  |
| 31 – 60 days                         | <b>10,665</b>  | 14,245  |
| 61– 90 days                          | <b>2,961</b>   | 934     |
| Over 3 months but less than 6 months | <b>2,213</b>   | 1,553   |
| Over 6 months but less than 1 year   | <b>1,041</b>   | 731     |
| Over 1 year but less than 2 years    | <b>407</b>     | 451     |
| Over 2 years but less than 5 years   | <b>216</b>     | 91      |
|                                      | <b>55,472</b>  | 57,555  |

The average credit period on purchases of goods is 30 to 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 22. BANK BORROWINGS

|                                                                                                                                                                                            | 2018<br>RMB'000 | 2017<br>RMB'000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Secured bank borrowings                                                                                                                                                                    | 60,000          | 41,707          |
|                                                                                                                                                                                            | <b>60,000</b>   | 41,707          |
| Carrying amount repayable:                                                                                                                                                                 |                 |                 |
| Within one year                                                                                                                                                                            | 60,000          | 27,500          |
| After one year but within two years                                                                                                                                                        | –               | 14,207          |
|                                                                                                                                                                                            | <b>60,000</b>   | 41,707          |
| Less: Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | –               | (14,207)        |
| Less: Carrying amount repayable within one year                                                                                                                                            | <b>(60,000)</b> | (27,500)        |
| Amount shown under non-current liabilities                                                                                                                                                 | –               | –               |

The Group's bank borrowings are interest-bearing as follows:

|                               | 2018<br>RMB'000 | 2017<br>RMB'000 |
|-------------------------------|-----------------|-----------------|
| Variable-rate bank borrowings | 60,000          | 41,707          |

The ranges of effective interest rates per annum on the Group's borrowings at the end of the reporting period are as follow:

|                                 | 2018                | 2017         |
|---------------------------------|---------------------|--------------|
| Variable-rate borrowings (Note) | <b>5% to 6.003%</b> | 5.7% to 6.3% |

Note: Interest at variable market interest rates are based on the People's Bank of China ("PBOC") lending rate plus a specific margin per annum.

As at 31 December 2018, bank borrowings were secured by certain buildings, prepaid lease payments and trademarks in aggregate of RMB21,149,000 (2017: RMB22,534,000).

As at 31 December 2018 and 2017, all of the Group's borrowing are denominated in RMB.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 23. DEFERRED TAXATION

The following is the analysis of the Group's deferred tax assets and deferred tax liabilities for financial reporting purposes:

|                          | <b>2018</b>    | 2017    |
|--------------------------|----------------|---------|
|                          | <b>RMB'000</b> | RMB'000 |
| Deferred tax assets      | <b>608</b>     | 786     |
| Deferred tax liabilities | <b>(400)</b>   | (450)   |
|                          | <b>208</b>     | 336     |

|                                      | <b>Impairment<br/>of assets</b> | <b>Withholding<br/>tax</b> | <b>Total</b> |
|--------------------------------------|---------------------------------|----------------------------|--------------|
|                                      | RMB'000                         | RMB'000                    | RMB'000      |
| At 1 January 2017                    | 933                             | –                          | 933          |
| Charged to profit or loss            | (147)                           | (450)                      | (597)        |
| At 31 December 2017                  | 786                             | (450)                      | 336          |
| Effect on adoption of HKFRS 9        | 40                              | –                          | 40           |
| At 1 January 2018 (as restated)      | <b>826</b>                      | <b>(450)</b>               | <b>376</b>   |
| (Charged) credited to profit or loss | <b>(218)</b>                    | <b>50</b>                  | <b>(168)</b> |
| At 31 December 2018                  | <b>608</b>                      | <b>(400)</b>               | <b>208</b>   |

At 31 December 2018, the aggregate amount of deductible temporary differences arising from impairment of assets amounted to RMB4,030,000 (2017: RMB5,219,000).

At 31 December 2018, no deferred tax has been recognised in respect of temporary differences associated with undistributed earnings of PRC subsidiaries amounted to RMB74,844,000 (2017: RMB79,664,000) because the Group controls the dividend policy. The policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 24. SHARE CAPITAL AND RESERVES

### (a) Share capital

|                                                                             | <b>Number of<br/>shares</b> | <b>Nominal value of<br/>ordinary shares</b> |         |
|-----------------------------------------------------------------------------|-----------------------------|---------------------------------------------|---------|
|                                                                             | '000                        | HK\$'000                                    | RMB'000 |
| Authorised:<br>Ordinary shares of HK\$0.01 each                             |                             |                                             |         |
| At 1 January 2017, 31 December 2017, 1 January 2018 and<br>31 December 2018 | 1,000,000                   | 10,000                                      | 8,606   |

### (b) Reserves

(i) *PRC statutory reserves*

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of Jiangsu Snow Leopard Daily Chemical Co., Ltd. and Shanghai Snow Leopard Daily Chemical Co., Ltd. Appropriations to the reserves were determined by the board of directors and can be used to offset accumulated losses and increase capital upon approval from the relevant government authorities.

The Company and its subsidiaries in the PRC have to set aside 10% of its profit for the statutory common reserve fund (except where the fund has reached 50% of its registered capital). Since the amount of the Company's statutory surplus reserve has reached 50% of the registered capital of the Company, no appropriation was made for 2018.

(ii) *Capital reserve*

Capital reserve represents the difference between the aggregate amount of issued and fully paid share capital of the subsidiaries acquired by the Company and the nominal amount of the shares issued by the Company in exchange for the entire equity interests in the subsidiaries as part of the reorganisation.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 25. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

|                                        | 2018<br>RMB'000 | 2017<br>RMB'000 |
|----------------------------------------|-----------------|-----------------|
| <b>Non-current asset</b>               |                 |                 |
| Investments in subsidiaries            | 100,730         | 100,742         |
| <b>Current assets</b>                  |                 |                 |
| Amounts due from subsidiaries (Note a) | 84,168          | 80,169          |
| <b>Current liabilities</b>             |                 |                 |
| Amounts due to subsidiaries (Note a)   | 381             | 322             |
| Other payable                          | –               | 48              |
|                                        | 381             | 370             |
| <b>Net current assets</b>              | 83,787          | 79,799          |
|                                        | 184,517         | 180,541         |
| <b>Capital and reserves</b>            |                 |                 |
| Share capital (note 24)                | 8,606           | 8,606           |
| Reserves (Note b)                      | 175,911         | 171,935         |
|                                        | 184,517         | 180,541         |

Notes:

(a) The amounts are unsecured, interest-free and repayable on demand.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

### 25. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

#### (b) Movements in the Company's reserves

|                                                                    | <b>Share<br/>premium</b><br>RMB'000 | <b>Other<br/>reserve</b><br>RMB'000<br>(Note) | <b>Accumulated<br/>losses and<br/>retained<br/>profits</b><br>RMB'000 | <b>Total</b><br>RMB'000 |
|--------------------------------------------------------------------|-------------------------------------|-----------------------------------------------|-----------------------------------------------------------------------|-------------------------|
| At 1 January 2017                                                  | 74,386                              | 100,730                                       | 3,415                                                                 | 178,531                 |
| Loss for the year and total comprehensive expense<br>for the year  | –                                   | –                                             | (6,596)                                                               | (6,596)                 |
| At 31 December 2017 and 1 January 2018                             | 74,386                              | 100,730                                       | (3,181)                                                               | 171,935                 |
| Profit for the year and total comprehensive income<br>for the year | –                                   | –                                             | 3,976                                                                 | 3,976                   |
| At 31 December 2018                                                | <b>74,386</b>                       | <b>100,730</b>                                | <b>795</b>                                                            | <b>175,911</b>          |

Note: Other reserve represents the difference between the nominal value of the shares issued for the acquisition of equity interests of its subsidiaries and the net assets value of its subsidiaries at the date of acquisition.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 26. RETIREMENT BENEFIT SCHEMES

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. The MPF Scheme is a defined contribution retirement plan and the assets of the MPF Scheme are held separately from those of the Group in funds administered by independent trustee. Under the MPF Scheme, the Group and its employees makes monthly contributions to the MPF Scheme at 5% of the employee's earnings capped at HK\$1,500 per month to the MPF Scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of RMB4,560,000 (2017: RMB4,277,000) represent contributions payable to these schemes by the Group for the year ended 31 December 2018.

## 27. CAPITAL COMMITMENTS

As at 31 December 2018 and 2017, the Group has the following capital commitments in respect of acquisition of property, plant and equipment:

|                                 | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---------------------------------|-----------------|-----------------|
| Contracted but not provided for | <b>4,838</b>    | 8,140           |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 28. LEASE COMMITMENT

### The Group as lessee

At 31 December 2018 and 2017, the Group had commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

|                 | <b>2018</b><br><b>RMB'000</b> | 2017<br>RMB'000 |
|-----------------|-------------------------------|-----------------|
| Within one year | <b>33</b>                     | 73              |

Operating lease payment represents rental payable by the Group for certain of its office properties. Lease is negotiated for an original term of 1 to 2 years and rental is fixed over the lease terms.

### The Group as lessor

The Group had contracted with tenants under operating lease arrangement, with leases negotiated for terms ranging from 1 to 10 years. At 31 December 2018 and 2017, the Group had contracted with tenants for the following future minimum lease payments:

|                                        | <b>2018</b><br><b>RMB'000</b> | 2017<br>RMB'000 |
|----------------------------------------|-------------------------------|-----------------|
| Within one year                        | <b>586</b>                    | 1,217           |
| In the second to fifth years inclusive | <b>2,343</b>                  | 2,343           |
| Over five years                        | <b>2,197</b>                  | 2,783           |
|                                        | <b>5,126</b>                  | 6,343           |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 29. RELATED PARTY DISCLOSURES

Save as disclosed elsewhere in the consolidated financial statements, the Group has the following transactions with its related parties.

- (a) During the year ended 31 December 2018, the Group rented an office premises from Ms. Li Qiuyan, a shareholder and a director of the Company, at nil consideration (2017: Nil).
- (b) During the year ended 31 December 2018, the Group incurred RMB306,000 advertising expenses payable to a company controlled by the spouse of Mr. Tong Xing, a director of the Company (2017: RMB247,000).
- (c) Compensation of key management personnel

|                                          | <b>2018</b>    | 2017    |
|------------------------------------------|----------------|---------|
|                                          | <b>RMB'000</b> | RMB'000 |
| Salaries and other benefits in kind      | <b>1,581</b>   | 2,136   |
| Retirement benefits scheme contributions | <b>170</b>     | 176     |
|                                          | <b>1,751</b>   | 2,312   |

The remuneration of key management personnel including executive directors of the Company and senior management of the Group is determined by the performance of individuals and market trends.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

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

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

|                                        | <b>Bank<br/>borrowings</b><br>RMB'000<br>(note 22) |
|----------------------------------------|----------------------------------------------------|
| At 1 January 2017                      | 52,807                                             |
| Cash movements                         |                                                    |
| Bank borrowings raised                 | 39,451                                             |
| Repayment of bank borrowings           | (49,253)                                           |
| Non-cash movements                     |                                                    |
| Foreign exchange movement              | (1,298)                                            |
| At 31 December 2017 and 1 January 2018 | 41,707                                             |
| Cash movements                         |                                                    |
| Bank borrowings raised                 | <b>60,000</b>                                      |
| Repayment of bank borrowings           | <b>(41,707)</b>                                    |
| At 31 December 2018                    | <b>60,000</b>                                      |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

## 31. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

The particulars of the subsidiaries of the Group as at the end of reporting period are as follows:

| Name of subsidiaries                                             | Place of incorporation/ establishment      | Issued and fully paid share capital/ registered capital               | Attributable equity interest held by the Group |      | Principal activities                                                              |
|------------------------------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------|------|-----------------------------------------------------------------------------------|
|                                                                  |                                            |                                                                       | 2018                                           | 2017 |                                                                                   |
| <i>Direct subsidiaries</i>                                       |                                            |                                                                       |                                                |      |                                                                                   |
| SL Far East Investments Limited                                  | British Virgin Islands ("BVI")             | Issued and fully paid share capital United States Dollars("USD")1,000 | 100%                                           | 100% | Investment holding                                                                |
| Snow Leopard Technology (Holding Group) Ltd                      | BVI                                        | Issued and fully paid share capital USD1,000                          | 100%                                           | 100% | Investment holding                                                                |
| Golden Maxim Limited                                             | BVI                                        | Issued and fully paid share capital USD1,000                          | 100%                                           | 100% | Investment holding                                                                |
| <i>Indirect subsidiaries</i>                                     |                                            |                                                                       |                                                |      |                                                                                   |
| FE Golden Classic Dentists International Limited                 | Hong Kong                                  | Issued and fully paid share capital HK\$1,000                         | 100%                                           | 100% | Investment holding                                                                |
| 江蘇雪豹日化有限公司<br>Jiangsu Snow Leopard Daily Chemical Co. Limited    | PRC,<br>wholly-owned<br>foreign enterprise | Registered capital RMB85,680,000                                      | 100%                                           | 100% | Manufacture and trading of oral care, leather care and household hygiene products |
| 上海雪豹日用化學有限公司<br>Shanghai Snow Leopard Daily Chemical Co. Limited | PRC,<br>limited liability<br>company       | Registered capital RMB1,000,000                                       | 100%                                           | 100% | Trading of oral care, leather care and household hygiene products                 |
| Larento International (Development) Co., Limited                 | Hong Kong                                  | Issued and fully paid share capital HK\$1                             | 100%                                           | 100% | Investment holding                                                                |

None of the subsidiaries had issued any debt securities during both years or at the end of both years.

