2019
Annual Report

Goodbaby International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
www.gbinternational.com.hk
Stock Code: 1086

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Corporate Information

CORPORATE INFORMATION

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Mr. Liu Tongyou
Mr. Michael Nan Qu

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Ms. Fu Jingqiu
Mr. Ho Kwok Yin, Eric

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Iain Ferguson Bruce
Mr. Shi Xiaoguang
Ms. Chiang Yun
Mr. Jin Peng

AUDIT COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Shi Xiaoguang
Ms. Chiang Yun

NOMINATION COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Shi Xiaoguang
Ms. Chiang Yun

REMUNERATION COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Shi Xiaoguang
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Ms. Ho Siu Pik

AUTHORIZED REPRESENTATIVES

Mr. Song Zhenghuan
Ms. Ho Siu Pik

WEBSITE

www.gbinternational.com.hk

STOCK CODE

1086

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

Despite strong headwinds and increased downward pressure on the global economy in 2019, the Group ("Goodbaby International Holdings Limited, together with its subsidiaries") has remained committed to firmly implementing its business strategy and carrying out its planned reforms. These have enabled it to proceed forward on a path of steady and solid development.

The Group recorded revenue of HK$8,777.1 million for 2019, while also achieving a steady increase in gross profit and robust growth in operating profit year-on-year. The market status and brand value of our core Strategic brands improved significantly. The Group continued to reinforce and enhance its business model, which integrates brand development, distribution, R&D, production, services and supply chain, leading to the further consolidation of its leading position in the industry in 2019.

CYBEX continued its strong growth, recording revenue of HK$2,457.5 million in the year, a year-on-year increase of 25.9% on a constant currency basis. In 2019, CYBEX launched more than 80 new products, generating much high-profile attention in the industry. These included the world's first smart electric baby stroller and the world's first smart car seat, both of which stand at the forefront of current technological trends in the industry. CYBEX's two car seat products received "Best in Class" in the highest rating ("Good") in Europe's most important child car seat test, performed by ADAC. As of the end of the year, CYBEX had received a total of 45 "Best in Class" in safety tests conducted by ADAC. The CYBEX Priam Stroller won the 2019 Product Safety Award, a new initiative by the European Commission. In 2019, the collection jointly designed by CYBEX and supermodel Karolina Kurkova was launched with much marketing fanfare around the world, representing a pioneering force in the fan economy. CYBEX has continued to promote its brand image by opening brand flagship stores in metropolis such as Tokyo, Seoul and Shanghai, where it is presenting premium lifestyle options as an industry leader.

During the year, tremendous efforts on the part of the entire gb team and its new management helped transform the business model of gb brand, upgrade its product portfolios, and reshape the brand image. As a result, gb brand achieved strong forward momentum in a path inspired by youth culture, technology and fashion. Our collaboration with leading European designers has brought initial achievements, and various smart products developed with innovative hi-tech companies have been well received in the market. We have also introduced new-generation flagship stores in first tier and second tier cities in the People's Republic of China ("PRC" or "China"), an important move towards embracing a new retail model, under which we are able to provide new shopping experiences and caring life services through the integration of online and offline services. The new model represents a significant breakthrough, and has been highly recognized and appreciated by consumers and the industry. In 2019, we transformed our distribution channels with the full launch of our cloud store model of physical retail plus community e-commerce, a move which has been well embraced by our distribution partners. It has been most encouraging that by establishing a data platform, an online B2B ordering system, a live streaming marketing system and a real-time replenishment system, we have built a cloud store platform that directly connects with fan communities at the consumer end, leading to our fans voluntarily sharing and promoting our products and services. More recently, this has proved valuable in helping the gb brand survive through the coronavirus disease 2019 ("COVID-19") epidemic when offline channels were closed. Despite challenging times associated with the decline in the number of newborns in China for three consecutive years, these initiatives helped gb brand achieve good momentum in its core China market and recorded year-on-year growth of 3.7% on a constant currency basis.

During the year, Evenflo faced potentially crippling challenges such as the Sino-US trade war, and had to adjust to a new industrial landscape following the bankruptcy and liquidation of its main channel TRU/BRU. It overcame these challenges and recovered to record sales revenue of HK$1,839.5 million for the year, representing a year-on-year increase of 1.0% on a constant currency basis. Evenflo focused on rebranding and investment in research and development: new products from our gold line entered the market as planned and were well received. Two of the brand's stroller products won 2019 JPMA Innovation Awards in the US.

The Group's Blue Chip business continued its steady development during the year. The Group's industry-leading advantages – which include its ability to integrate R&D, production, services and supply chain – have attracted high-end customers in the industry and helped the Group build stable long-term relationships with them.

The Group has remained fully committed to innovation. It made 649 new patent applications in 2019. During the year, it won four red dot awards, a gold medal from the China Excellent Design Award, a GOOD DESIGN AWARD in Japan, and an International Design Award (IDA) in the US.

The Group has enhanced its leading role in standard-making collaborations. In 2019, the world's first international standard for strollers (Final Draft International Standards, or "FDIS") was completed, and the first standard for aviation child safety seats in China drafted. As of the end of 2019, the Group had led or participated in nearly 200 standard-making collaborations globalwise.

The Group's manufacturing has entered a new phase of quality development. We have completed a series of technical innovations that have included the production of core components and the assembly of finished goods. We have also further improved the Goodbaby Excellence System (GBES), continued to upgrade the quality of our products and services, shortened delivery times and optimized inventories, and made great progress in cost competitiveness.

In 2020, we will continue to work hard in pursuit of our vision, and will accelerate our efforts to implement our key development strategies for brand, channel, value chain and digitalization.

Regardless of how the external environment may change, my team and I will continue to strive for new achievements and new breakthroughs, and will seize opportunities that arise out of the challenges we face, with the aim of creating more value for our shareholders, employees and the society.

We look forward to your ongoing care and support.

Thank you!

Song Zhenghuan
Chairman
24 March 2020


cybex
ADULTS
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Management Discussion & Analysis

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

We recorded growth in revenue and strong growth in our operating profit for the year ended 31 December 2019 (the "Period"). Our revenue for the Period increased by 1.7% to approximately HK$8,777.1 million from approximately HK$8,629.1 million for the corresponding period in 2018. During the Period, foreign exchange rate fluctuations impacted the overall revenue growth. On a constant currency basis, our revenue for the Period recorded a 4.9% increase compared to the corresponding period in 2018. Our reported gross profit increased by 3.3% to approximately HK$3,780.6 million for the Period from approximately HK$3,661.3 million for the corresponding period in 2018. Our reported operating profit increased by 19.3% to approximately HK$389.9 million from approximately HK$326.8 million for the corresponding period in 2018 and on a non-GAAP basis, our operating profit increased by 9.4% to approximately HK$473.0 million for the Period from approximately HK$432.3 million for the corresponding period in 2018.

Our revenue performance is attributable to the strong growth from CYBEX, a return to overall growth in the Period for gb and the stable performance of Evenflo, offset by decreases in the Group's tactical brands and retailer's private label business resulting from the Group's prioritization towards its more profitable core Strategic brands.

During the Period, the Group's core Strategic brands recorded an overall 4.9% growth in revenue (8.5% on a constant currency basis) from the revenue of the corresponding period in 2018. Due to the Group's continued focused brand strategy, our core Strategic brands represent approximately 81.3% of the total consolidated revenues for the Period compared to approximately 78.8% for the corresponding period in 2018.

Summary of the Group's core Strategic brands revenue:

	For the year ended 31 December					
(HK$ million)	2019		2018		Change (%)	Change on a constant currency basis (%)
Group Total Revenue	**$8,777.1**		**$8,629.1**		**1.7%**	**4.9%**
	Amount	% of Revenue	Amount	% of Revenue	Change (%)	Change on a constant currency basis (%)
Core Strategic Brands Revenue	$7,131.7	81.3%	$6,797.5	78.8%	4.9%	8.5%
CYBEX	2,457.5	28.0%	2,042.5	23.7%	20.3%	25.9%
gb	2,834.7	32.3%	2,928.6	33.9%	–3.2%	1.1%
Evenflo	1,839.5	21.0%	1,826.4	21.2%	0.7%	1.0%

EXECUTIVE SUMMARY

During the Period, the Group's core Strategic brands performed as follows:

- **CYBEX** brand recorded a significant increase in revenue by 20.3% (25.9% on a constant currency basis) in the Period to approximately HK$2,457.5 million from approximately HK$2,042.5 million for the corresponding period in 2018. This historic record in revenue was directly attributable to the continued strong brand performance, driven by over 80 new and innovative product introductions and enhanced logistics capabilities in EMEA. The revenue growth was generated from increased sales in both car seats and wheeled goods in EMEA and key regional markets outside EMEA. In EMEA, CYBEX recorded very strong revenue growth of 22.4% (28.0% on a constant currency basis) in the Period to approximately HK$2,016.2 million from approximately HK$1,647.7 million for the corresponding period in 2018. In markets outside EMEA, CYBEX recorded strong growth of 11.8% (17.0% on a constant currency basis) in the Period to approximately HK$441.3 million from approximately HK$394.8 million for the corresponding period in 2018.

  During the Period, CYBEX reinforced its global leading position as the premium "technical-lifestyle" brand through various activities, such as global product launch events in New York City, Shanghai and Berlin; continued design collaborations with global leading brands and personalities; the introduction of a new crash facility in Germany to reinforce our child safety competence; and the opening of Flagship Stores in Asia and Side by Side Stores in key European cities to expand our offline presence. These initiatives have continued to establish the foundation for the brand's sustainable rapid growth in the future. CYBEX continued to receive awards from design organizations (e.g. 2 red dot awards), independent European consumer testing organizations (e.g. 2 "Best in Class" test awards from ADAC) and the Product Safety Award, a new initiative by the European Commission.

- **gb** brand recorded full year growth on a constant currency basis directly attributable to the performance turnaround achieved in the key China market resulting from the implementation of early 2019 initiatives and positive momentum realized therefrom in the second half of 2019. On a global basis, gb brand recorded a revenue decrease of 3.2% (increase of 1.1% on a constant currency basis) in the Period to approximately HK$2,834.7 million from approximately HK$2,928.6 million for the corresponding period in 2018.

  During the Period, gb brand in the China market achieved revenue growth of 3.7% on a constant currency basis attributable to the sustained stable growth in non-durables during the Period and the turnaround achieved in durables in the second half of 2019, resulting in full year growth in the durable segment of 0.2% on a constant currency basis comparing to the corresponding period in 2018. The growth in durables was fueled by successful introductions of new wheeled goods products in the second half of 2019. Non-durables revenue recorded growth of approximately 6.0% on a constant currency basis which was mainly attributable to growth of apparel and home textiles. gb continued to execute strong results in all its owned online and offline retail channels. During the year, gb introduced its new retail store concepts, along with franchised gb retail in lower tier cities, which are supported by our cloud retail system, providing an overall platform for both wholesalers and consumers to have a deeper engagement with gb. These new streamlined Flagship retail store concepts, creative design partnerships with leading international design institutes, live streaming platforms have all contributed to the performance turnaround as gb brand rapidly increased its fan community members.

  gb brand's revenue outside the China market approximated HK$234.2 million in the Period as compared to approximately HK$307.2 million in the corresponding period of 2018. This decrease was a direct result of prioritization of the key China market to ensure the brand's stabilization.

- **Evenflo** brand (predominantly a North American brand) rebounded from a weak revenue performance in early 2019 caused by challenging political and retail environments in the United States, to achieve overall growth in the Period of 0.7% (1.0% on a constant currency basis) to approximately HK$1,839.5 million from approximately HK$1,826.4 million for the corresponding period in 2018. While certain of the aforementioned challenges continue to exist, Evenflo's performance rebounded in the second half of 2019, which was attributed to new product launches and listings with major retailers and improved infrastructure related to the headquarters relocation to Boston.

MANAGEMENT DISCUSSION & ANALYSIS

During the Period, our Blue Chip business recorded a strong recovery in the second half of 2019 from the first half of 2019, as anticipated, to record only an overall slight decrease of 1.9% (decrease of 0.6% on a constant currency basis) in revenue to approximately HK$1,008.6 million in the Period as compared to approximately HK$1,028.1 million in the corresponding period in 2018. Our relationships with key Blue Chip customers remain strong and we are continually recognized for the outstanding quality, value, supply chain and customer service metrics we achieve for this important part of our business.

During the Period, the Group's revenue from other business units including the Group's tactical brands and retailer's private label business approximated HK$636.8 million as compared to approximately HK$803.5 million in the corresponding period of 2018. This approximate 20.7% decrease (decrease of 18.4% on a constant currency basis) continues to be directly impacted by the Group's strategy to concentrate on profitable business and continue full focus on the development of its core Strategic brands.

OUTLOOK

COVID-19 UPDATE

Our business performance will inevitably be impacted by the global outbreak of COVID-19. The spread of COVID-19 has had a direct impact on both overall global markets and the Group's business performance during late January 2020 to date, with the most acute impact occurring in our China market.

In the China market, prior to the outbreak of COVID-19 in January 2020, our commercial operations were generating strong growth in revenue performance. However, due to the COVID-19 outbreak, our offline retail operations temporarily suspended business in late January 2020. Consequently, our revenues from late January through February significantly declined due to the offline store shutdowns. During this same period, our strong online foundation and the digital transformation implemented in 2019 promoted sales and achieved a partial offsetting impact to the offline revenue decline. Our China market revenue decline in March 2020 is narrowing quickly and we expect only single-digit percentage revenue decline compared with March 2019 due primarily to the strong growth in online revenues and the ramp-up in offline revenues. We recently began to progressively reopen our offline stores and anticipate more than 80% will be reopened by the end of March with the expectation that the recovery in store traffic will be gradual.

As of late March, the impact of COVID-19 is in the early stage for our commercial operations outside China. CYBEX revenue in Q1 2020 is expected to remain stable as it has been moderately impacted by supply chain interruptions in February and March. Additionally, CYBEX's revenue performance in Asian regions is similarly impacted as the China market, which will be offset by continued strong growth in EMEA. CYBEX's balanced distribution model will ensure online access to the full product portfolio as consumers likely shift to online shopping. Evenflo, by leveraging its North American manufacturing locations, has experienced minimal supply chain impact to date and resulting revenue performance will also be stable in Q1 2020. Our Blue Chip revenues in January and February were stable while March will be impacted by the February shutdown of our China factories. We are not providing any further outlook guidance given that our key markets outside China are in the early stage of the COVID-19 outbreak. We anticipate an evolution similar to China; however the situation is extremely volatile and dynamic. Our businesses have well developed online distribution footprints to mitigate probable offline revenue declines.

Our manufacturing facilities in China have progressively reopened since mid February and are expected to reach near capacity by the end of March. We do not expect any future material production shortages. Our North American based factories are taking all necessary precautions to limit the exposure to COVID-19.

The Group estimates that given the current assessment of the China market and the key global markets outside China, the financial performance of the Group will inevitably be affected by the COVID-19 situation in the first half of 2020. Any further significant or sustained global spread of COVID-19 may impact our future global commercial operations. Our senior leadership is closely monitoring the development of the COVID-19 situation in both China and across the global markets in which we operate and we are already taking precautionary and proactive measures to mitigate our overall exposure. At the same time, we believe our strong and comprehensive foundation will enable us to turn the crisis into opportunities to increase our market share and to enhance our leading position in the industry. The strength of our foundation draws upon 1) the diversification of our regional markets that are served by our core Strategic brands with a leading presence in their respective mother markets; 2) our one-dragon vertical integration model leveraging our regional manufacturing facilities that enable quicker reaction to market dynamics; 3) our omni-channel setup and leading direct to consumer and digital platforms to ensure we are always easily accessible to consumers as their behavior continues its rapid evolution; 4) our diversified product portfolio in both durables and non-durables and 5) most importantly our entrepreneurial culture to drive fast changes to adapt to market changes.

MID– TO LONG-TERM OUTLOOK

Notwithstanding the inevitable impact from COVID-19, we are very encouraged by our business development and the strength of our business platform. We remain confident in our overall strategy and returning back to growth after the world recovers from the COVID-19 situation. We will continue to execute our focused strategy in our core Strategic brands of CYBEX, gb and Evenflo and the development of our Blue Chip business.

Our core Strategic brands are celebrated by consumers across the globe. With a rapidly increasing fan base, we will continue to drive towards deeper engagement with all our fans by continuing to maintain and enhance our brand images, introduce new product innovations through relevant online and offline channels that delight our consumers. Global demand for CYBEX branded products will continue its strong growth across all key geographic regions supported by its current product portfolio, new product launches, new category extensions, introduction of CYBEX brand flagship stores in key global cities, strengthened supply chain capabilities and expansion of national distribution platforms in new geographic territories. gb brand's turnaround performance in 2019 and new initiatives launched in 2019 established the foundation for future growth in revenue and profitability. We will continue to introduce new durables and non-durables product innovations, introduce and upgrade our new generation retail store concepts working in concert with our cloud retail system to provide deeper engagement with both consumers and wholesalers. We will also expand our distribution and brand footprint, through franchising, into lower tier cities in China. Evenflo has rebounded from difficult market conditions in early 2019 and recorded growth since mid 2019 resulting from new product launches and new awards of business from major retailers as the brand is being recognized for its commitment to overall brand enhancement and product innovation. On a global basis, we will continue to invest in B2C platforms through our own national distribution platforms in existing and new markets to ensure we maintain a direct relationship with our fans and consumers and provide them with a world class online experience. We will continue to optimize our supply chain strategies to ensure we embrace supplier partnerships and broaden our global footprint to ensure we are quicker to market and leverage regional capabilities. World class manufacturing, supply chain excellence and cost optimization will always remain the core of our vision of leading the global juvenile eco-system and sustained profitable growth.

FINANCIAL REVIEW

REVENUE

For the Period, the total revenue of the Group increased by 1.7% to approximately HK$8,777.1 million from approximately HK$8,629.1 million for the corresponding period in 2018. During the Period, foreign exchange rate fluctuations impacted the overall revenue growth. On a constant currency basis, our revenue for the Period recorded a 4.9% increase compared to the corresponding period in 2018.

The table below sets out the revenue by business format for the periods indicated.

	For the year ended 31 December				Change (%)	Change on a constant currency basis (%)
	2019		2018			
(HK$ million)	Revenue	% of revenue	Revenue	% of revenue		
Group's own brand and retailer private label businesses	7,768.5	88.5	7,601.0	88.1	2.2%	5.7%
– APAC	3,495.5	39.8	3,642.3	42.2	–4.0%	0.1%
– EMEA	2,328.2	26.5	2,053.9	23.8	13.4%	18.5%
– Americas	1,944.8	22.2	1,904.8	22.1	2.1%	2.7%
Blue Chip business	1,008.6	11.5	1,028.1	11.9	–1.9%	–0.6%
Total	**8,777.1**	**100.0**	**8,629.1**	**100.0**	**1.7%**	**4.9%**

MANAGEMENT DISCUSSION & ANALYSIS

The 2.2% growth (5.7% growth on a constant currency basis) of the Group's own brand and retailer private label businesses were attributable to the strong performance of our core Strategic brand CYBEX and the stabilization of revenues from both brands gb and Evenflo, which was partially offset by the decrease in the Group's tactical brands and retailer's private label business (for more information about performances by brand, please refer to Executive Summary of this Management Discussion and Analysis section).

In region APAC, we recorded revenue from China market of approximately HK$3,106.4 million for the Period against approximately HK$3,142.2 million for the corresponding period in 2018, a decrease of 1.1% (an increase of 2.9% on a constant currency basis). The slight increase in revenue on a constant currency basis was mainly attributable to revenue growth from our core Strategic brand gb partially offset by revenue decrease from brand Happy Dino. The revenue from markets outside China decreased to approximately HK$389.1 million for the Period from approximately HK$500.1 million for the corresponding period in 2018, which was mainly due to the decrease in revenue from our toy segment brand Rollplay.

In region EMEA, we recorded revenue of approximately HK$2,328.2 million for the Period, an increase of 13.4% (18.5% on a constant currency basis) from approximately HK$2,053.9 million for the corresponding period in 2018. The significant growth in region EMEA is mainly attributable to the strong performance of our core Strategic brand CYBEX and partially offset by performance of brand gb.

In region Americas, we recorded revenue of approximately HK$1,944.8 million for the Period, an increase of 2.1% (2.7% on a constant currency basis) from approximately HK$1,904.8 million for the corresponding period in 2018. The increase was mainly attributable to the stabilization of revenue from our core Strategic brand Evenflo and strong growth of revenue from brand CYBEX.

Our revenue from Blue Chip business decreased by 1.9% (decrease of 0.6% on a constant currency basis) to HK$1,008.6 million for the Period as compared to approximately HK$1,028.1 million for the corresponding period in 2018. These results for 2019 are within management expectations and reflect the continued close working relationship with key customers who value our outstanding manufacturing, research and development, quality, cost competitiveness and overall service capabilities. Our business relationships in this sector are stable and healthy and our overall results are a reflection of customer activities and overall timing.

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

Cost of sales increased by 0.6% to approximately HK$4,996.5 million for the Period from approximately HK$4,967.8 million for the corresponding period in 2018. Gross profit for the Group increased to approximately HK$3,780.6 million for the Period from approximately HK$3,661.3 million for the corresponding period in 2018, and the gross profit margin increased by 0.7 percentage points to 43.1% for the Period from approximately 42.4% for the corresponding period in 2018. The improvement in gross profit margin was mainly attributable to increased revenue contribution from our core Strategic brands with higher gross margin and the continued improvement in cost efficiency.

OTHER INCOME AND GAINS

Other income and gains of the Group decreased by approximately HK$24.2 million to approximately HK$74.1 million for the Period as compared to approximately HK$98.3 million for the corresponding period in 2018, which was mainly attributable to the decrease in government grants together with the decrease of gain on sale of materials.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses primarily consist of marketing expenses, salaries and transportation costs. The selling and distribution expenses increased by approximately HK$66.1 million to approximately HK$2,275.0 million for the Period from approximately HK$2,208.9 million for the corresponding period in 2018. The increase was mainly attributable to:

a) the increase in marketing expenses to approximately HK$498.9 million for the Period from approximately HK$484.4 million for the corresponding period in 2018, to fuel revenue growth of core Strategic brands;

b) the increase in warehousing and transportation costs to approximately HK$452.7 million for the Period from approximately HK$416.9 million for the corresponding period in 2018, for our own brand business especially for the strong performance in region EMEA;

c) stable costs in personnel of approximately HK$608.0 million for the Period, compared to approximately HK$607.9 million in the corresponding period in 2018; and

d) stable online and offline store expense of approximately HK$298.4 million for the Period, compared to approximately HK$299.8 million for the corresponding period in 2018.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses primarily consist of salaries, research and development costs, professional service expenses, provision for the potential uncollectible receivables and other office expenses. The administrative expenses decreased by approximately HK$36.8 million to approximately HK$1,170.3 million for the Period from approximately HK$1,207.1 million for the corresponding period in 2018. The decrease was mainly due to:

a) the decrease in personnel cost to approximately HK$458.4 million for the Period from approximately HK$472.6 million for the corresponding period in 2018, due to a more integrated and optimized Group organization;

b) the decrease in the R&D cost to approximately HK$345.6 million for the Period from approximately HK$366.3 million for the corresponding period in 2018, due to more efficient R&D expenditures;

c) the decrease of approximately HK$12.4 million in provision for the impairment of receivables in the Period comparing with that in the corresponding period of 2018. In year 2018, we made significant provision for potential uncollectible receivables from TRU; and

d) stable in other administrative expenses.

OTHER EXPENSES

Other expenses of the Group increased to approximately HK$19.5 million for the Period from approximately HK$16.8 million for the corresponding period in 2018. Other expenses of the Group increased by approximately HK$2.7 million, which was mainly attributable to the disposal of obsolete scrap materials.

OPERATING PROFIT

As a result of the foregoing, the Group's operating profit increased by approximately 19.3%, or HK$63.1 million, to approximately HK$389.9 million for the Period from approximately HK$326.8 million for the corresponding period in 2018.

FINANCE INCOME

For the Period, the Group's finance income increased by approximately 15.4%, or HK$0.6 million, to approximately HK$4.5 million from approximately HK$3.9 million for the corresponding period in 2018. The Group's finance income mainly represents interest income from bank deposits.

MANAGEMENT DISCUSSION & ANALYSIS

FINANCE COSTS

For the Period, the Group's finance costs increased by approximately 14.7%, or HK$18.2 million, to approximately HK$141.8 million from approximately HK$123.6 million for the corresponding period in 2018. The increase for the Period was mainly attributable to the additional interest expenses arising from the lease liabilities recognized as a result of the adoption of IFRS 16 for the Period.

PROFIT BEFORE TAX

As a result of the foregoing, the profit before tax of the Group increased by 21.8% to approximately HK$252.8 million for the Period from approximately HK$207.5 million for the corresponding period in 2018.

INCOME TAX

The Group's income tax expense was approximately HK$50.2 million for the Period, increased by 23.3% from approximately HK$40.7 million for the corresponding period in 2018. The increase in the amount of income tax expense was aligned with the increase of the profit before tax of the Group.

PROFIT FOR THE YEAR

Profit of the Group for the Period increased by 21.5% to approximately HK$202.6 million from approximately HK$166.8 million for the corresponding period in 2018.

NON-GAAP FINANCIAL MEASURES

To supplement the consolidated results of the Group prepared in accordance with IFRS, certain non-GAAP financial measures, including non-GAAP operating profit, non-GAAP operating margin, non-GAAP profit before tax, non-GAAP profit for the year and non-GAAP net margin, have been presented in this annual report. The Company's management believes that the non-GAAP financial measures provide investors with more clear view on the Group's financial results, and with useful supplementary information to assess the performance of the Group's strategic operations by excluding certain impact of certain non-cash items, certain impact of merger and acquisition transactions, certain one-off bad debt provision and operating loss and recognition of deferred tax expenses due to the change of tax law. Nevertheless, the use of these non-GAAP financial measures has limitations as an analytical tool. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the years ended 31 December 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

	Year Ended 31 December 2019				
		Adjustments			
	As reported	Equity-settled share option expenses	Net fair value gains on call and put options (a)	Amortization of intangible assets and inventory appreciation (b)	Non-GAAP
	(HK$ million)				
Operating profit	389.9	44.6	–3.4	41.9	473.0
Profit before tax	252.8	44.6	–3.4	41.9	335.9
Profit for the year	202.6	44.6	–2.4	31.3	276.1
Operating margin	4.4%				5.4%
Net margin	2.3%				3.1%

	Year ended 31 December 2018					
		Adjustments				
	As reported	Equity-settled share option expenses	Net fair value losses on call and put options (a)	Amortization of intangible assets and inventory appreciation (b)	One-off bad debt provision associated with TRU/BRU	Non-GAAP
	(HK$ million)					
Operating profit	326.8	34.2	0.7	45.7	24.9	432.3
Profit before tax	207.5	34.2	0.7	45.7	24.9	313.0
Profit for the year	166.8	34.2	0.5	34.0	20.3	255.8
Operating margin	3.8%					5.0%
Net margin	1.9%					3.0%

Notes:

(a) Net fair value gains or losses on call options and put options granted to non-controlling shareholders of certain subsidiaries of the Group.

(b) Amortization of intangible assets and inventory appreciation arising from acquisitions, net of related deferred tax.

MANAGEMENT DISCUSSION & ANALYSIS

WORKING CAPITAL AND FINANCIAL RESOURCES

	As at 31 December 2019	As at 31 December 2018
	(HK$ million)	
Trade and notes receivables (including trade receivables due from a related party)	1,087.2	1,108.6
Trade and notes payables	1,324.4	1,439.4
Inventories	1,954.5	1,944.0

	Year Ended 31 December 2019	Year ended 31 December 2018
	(HK$ million)	
Trade and notes receivables turnover days[(1)]	45	48
Trade and bills payables turnover days[(2)]	100	101
Inventories turnover days[(3)]	140	140

Notes:

(1) Trade and notes receivables turnover days = Number of days in the reporting period x (average balance of trade and notes receivables at the beginning and at the end of the period)/revenue in the reporting period.

(2) Trade and bills payables turnover days = Number of days in the reporting period x (average balance of the trade and notes payables at the beginning and at the end of the period)/cost of sales in the reporting period.

(3) Inventories turnover days = Number of days in the reporting period x (average balance of inventories at the beginning and at the end of the period)/cost of sales in the reporting period.

The decrease of trade and note receivables and decrease of trade and notes receivables turnover days were mainly attributable to the tighter control and stronger credit collectability.

The trade and note payables and the trade and notes payables turnover days remain stable compared with the corresponding period in 2018.

The inventories and the inventories turnover days remain stable compared with the corresponding period in 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group's monetary assets, including cash and cash equivalents, time deposit, and pledged deposits were approximately HK$1,078.6 million (31 December 2018: approximately HK$930.4 million).

As at 31 December 2019, the Group's interest-bearing bank loans and other borrowings were approximately HK$2,753.7 million (31 December 2018: approximately HK$2,777.2 million), including short-term bank loans and other borrowings of approximately HK$892.2 million (31 December 2018: approximately HK$887.5 million) and long-term bank loans and other borrowings with repayment terms ranging from two to four years of approximately HK$1,861.5 million (31 December 2018: approximately HK$1,889.7 million).

As a result, as at 31 December 2019, the Group's net debt position was approximately HK$1,675.1 million (31 December 2018: approximately HK$1,846.8 million).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no material contingent liabilities (31 December 2018: nil).

EXCHANGE RATE FLUCTUATIONS

The Group is a multinational enterprise with operations in different countries and the money that it used to conduct its business and transaction is denominated in various currencies, and the Group uses Hong Kong dollar ("HK$") as its reporting currency, which is pegged to U.S. dollar ("US$"). The Group's revenue is mainly denominated in US$, Renminbi ("RMB") and Euro. The Group's procurement and OPEX are mainly denominated in RMB, US$ and Euro. The net exposures to foreign currency risks of the Group's operating results are mainly the US$ and Euro revenue against RMB procurement and OPEX. The Group would benefit from the appreciation of US$ and Euro against RMB but would suffer losses if US$ or Euro depreciates against RMB. The Group uses forward contracts to eliminate the foreign currency exposures.

PLEDGE OF ASSETS

As at 31 December 2019, bank deposits of approximately HK$24.0 million (31 December 2018: Nil) were pledged for business operation. Certain machinery amounting to approximately HK$17.3 million was pledged to secure bank loan granted to the Group.

GEARING RATIO

As at 31 December 2019, the Group's gearing ratio (calculated by net debt divided by the sum of adjusted capital and net debt; the amount of net debt is calculated by the sum of trade and bills payables, other payables and accruals, payables due to related parties and interest-bearing bank loan and other borrowings (current and non-current) less cash and cash equivalents; the amount of adjusted capital is calculated by equity attributable to owner of the parent minus hedging reserve) was approximately 43.2% (31 December 2018: approximately 45.2%), or 44.8% after taking into consideration the impact of IFRS 16.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group has a total of 11,180 full-time employees (as at 31 December 2018, the Group had a total of 12,397 full-time employees). For the year ended 31 December 2019, costs of employees, excluding Directors' emoluments, amounted to a total of approximately HK$1,703.6 million (2018: approximately HK$1,750.5 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale. The Group provides its employees in the PRC and other countries and regions with welfare schemes as required by applicable local laws and regulations.

MANAGEMENT DISCUSSION & ANALYSIS

On 5 November 2010, the Company adopted a share option scheme ("Share Option Scheme") to incentivize or reward eligible participants for their contribution to the Group for the purpose of motivating the eligible participants to optimize their performance efficiency for the benefit of the Group, and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

As at 31 December 2018, 133,030,667 share options were outstanding. The Company granted 85,300,000 share options on 23 May 2019. In 2019, 7,050,667 share options had lapsed and none of the share options had been exercised. As at 31 December 2019, there were 211,280,000 outstanding share options.

KEY RISKS AND UNCERTAINTIES

The Company's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Company with the understanding that it is not an exhaustive list of all risks and uncertainties. There may be other risks and uncertainties in addition to those shown below which are not known to the Company or which may not be material now but could turn out to be material in the future.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company adopts the "three lines of defense" model for operational risk governance: 1) the first line of defense is the business and functional management unit which is responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which it is accountable; 2) a functionally independent corporate operational risk and compliance function, typically the finance or internal control department, is the second line of defense, generally complementing the business line's operational risk management activities and ensuring the first line of defense is properly designed, in place, and operating as intended; 3) the third line of defense is internal audit function which provides assurance on the effectiveness of governance, risk management, and internal controls. The Company recognizes that operational risks cannot be eliminated completely and that it may not always be cost effective to do so.

Business units and supporting functions in the Company are guided by their internal control policies and standard operating procedures, limits of authority and reporting framework which are updated in response to business changes or business needs from time to time. The Company identifies and assesses key operational exposures from time to time so that appropriate risk response can be taken.

Ability to attract, retain and motivate key personnel and talents with appropriate and required skills, experience and competence in a tightening talent market could lead to the risk of impacting the Company's operating and financial performance. The Company will continue to assess and enhance our remuneration, training and career development policy and system to attract, retain and motivate suitable talents.

BUSINESS RISK

The Company's product market is highly fragmented and competitive worldwide. The Company faces competition primarily from third-party local juvenile product brand owners in the mass market and owners of international brands in the mid to high end market. Failure to maintain the Company's competitive position may materially adversely affect our business, financial condition, results of operations and prospects. Furthermore, change of the overall market condition including but not limited to macroeconomic conditions and applicable regulations may also materially adversely impact the Company's sales, cost, expenses and profitability. The Company seeks to mitigate these potential adverse impacts through strategies such as safeguarding market competitiveness of the full range product portfolios, strengthening extensive global sales network, broadening customer base and geographical locations by leveraging the three home markets of the Company anchored in the three main regions, i.e. APAC, EMEA and Americas, and continual innovations and commercialization of cutting edge products to sustain market leadership.

FINANCIAL RISK

In the course of business operations, the Company is exposed to a variety of financial risks, including but not limited to market, liquidity and credit risks. The currency environment, interest rates cycles and mark to market value of derivative financial instruments may pose significant risks to the Company's financial condition, results of operations and businesses. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects of these risks with a material impact on the Company's financial performance.

Market risk is the risk that the Company's earnings and capital or its ability to meet its business objectives will be adversely affected by movement in foreign exchange rates, interest rates and equity prices. The Company has transactional currency exposure which arises from sales or purchases by operating units in currencies other than the units' functional currency. The Company closely monitors the relative foreign exchange positions of its assets and liabilities and has developed a complete set of foreign exchange management policies, processes and mechanism to mitigate foreign currency risk, such as negotiation of appropriate commercial terms and use of derivative financial instruments to hedge these risk exposures.

Financing risk is the potential that the Company will be unable to meet its obligations when they fall due because of an ability to obtain adequate funding or liquidate assets. In managing financing risk, the Company monitors cash flows and maintains an adequate level of cash and credit facilities to ensure the ability to finance the Company's operations and reduce the effects of fluctuation in cash flows.

Credit risk is the risk of losses arising from a counterparty defaulting on an obligation which will result in an economic loss to the Company. It arises from manufacturing and sales businesses and other activities undertaken by the Company. The Company's exposure to credit risk for its businesses arises primarily from its customers. New customers are subject to credit evaluation while the Company continues to monitor its existing customers, especially those with repayment issues. Adequate credit insurance schemes are in place and managed centrally at group level to mitigate default impacts. The bank balances are deposited with creditworthy banks with no recent history of default.

REGULATORY AND COMPLIANCE RISK

The business operations of the Company cover three main regions and it is important to ensure compliance of applicable laws and regulations in different jurisdictions, such as laws of patent and product safety, that are relevant to the business scope and products/services of the Company. The Group has a few internal professional teams who, with the support from the appropriate external advisers, oversee compliance with prevailing legislative and industry requirements, monitor changes and new requirements set out in the relevant laws and regulations and formulate and take the appropriate actions and measures (where necessary).

DIRECTORS & SENIOR MANAGEMENT

DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

SONG Zhenghuan (宋鄭還), aged 71, is the chairman and executive director of the Company. He was also the chief executive officer of the Company from listing to 15 January 2016. With more than 29 years of experience in the juvenile products industry, Mr. Song is the founder and primarily responsible for our group's overall strategic direction and the management of the Group's business. Mr. Song majored in mathematics and graduated from Jiangsu Teachers University (江蘇師範學院) in 1981 with a certificate of graduation. Prior to establishing the Company, Mr. Song was a teacher in Lujia Middle School in Kunshan City from 1973 to 1984 and was the Vice Principal from 1984 to 1993. Between 1989 and 1993, Mr. Song was also in charge of a factory run by Lujia Middle School, the predecessor of Goodbaby Group Co., Ltd., which is a major founding shareholder of our Group. In 1989, Mr. Song invented the first "push and rock" stroller and subsequently founded our Group to engage in the design, manufacture and marketing of strollers under the 好孩子 Goodbaby brand in China. Because of Mr. Song's outstanding achievements, he was awarded the Ernst & Young Entrepreneur of the Year Award (安永企業家獎) for the Greater China region in 2006. In 2012, Mr. Song was awarded the "Chinese Toy Industry's Outstanding Achievement Award" (中國玩具行業傑出成就獎) by the China Toy Association. In 2013, Mr. Song was selected as winner of Walter L. Hurd Executive Medal 2013 by the Walter L. Hurd Fo.

Mr. Song is currently a director of the following companies in the Group:

(i) Goodbaby Child Products Co., Ltd.*;
(ii) Ningbo Goodbaby Child Products Co., Ltd.*;
(iii) Paragon Child Products Co., Ltd.;
(iv) Goodbaby Children's Products, Inc.;
(v) Goodbaby (Hong Kong) Limited;
(vi) Shanghai Goodbaby Fashion Co., Ltd;
(vii) Magellan Holding GmbH;
(viii) Goodbaby US Holdings, Inc.;
(ix) Serena Merger Co., Inc.;
(x) WP Evenflo Holdings, Inc.;
(xi) Evenflo Company, Inc.;
(xii) Evenflo Asia, Inc.;
(xiii) Lisco Feeding, Inc.;
(xiv) Lisco Furniture, Inc.;
(xv) Goodbaby (Europe) Group Limited;
(xvi) Pacquita Limited;
(xvii) Rollplay (Hong Kong) Co., Limited;
(xviii) OASIS DRAGON LIMITED;
(xix) Goodbaby Retail & Service Holdings Company;
(xx) Goodbaby (China) Retail & Service Company;
(xxi) Goodbaby (Fuyang) Commercial Co., Ltd*; and
(xxii) Goodbaby Europe Holdings Limited.

Mr. Song is an indirect shareholder and director of Cayey Enterprises Limited and Pacific United Developments Limited ("PUD"), both of which are substantial shareholders of the Company.

Mr. Song is also a shareholder and a director of Sure Growth Limited, a substantial shareholder of the Company.

Mr. Song is the spouse of Ms. Fu Jingqiu, the non – executive director of the Company.

* *For identification purpose only*

Martin POS, aged 50, is an executive director and chief executive officer of the Company responsible for the Group's strategy implementation and overall management, leading all the Group's business units and functions across each continent, comprising of technical services, supply chain and manufacturing, brand portfolio management, international distribution, national distribution and the Group's central services. Mr. Pos is the founder of the world's leading high-end child car seat brand CYBEX. He is an entrepreneur with over 21 years of industry experience including the development and management of premium lifestyle brands, most notably the global distribution, design and development of premium baby products. Following the merger of CYBEX in early 2014, Mr. Pos was appointed as the executive director of the Company in March 2014 primarily responsible for the management of portfolio of global brands for our company. In December 2014, Mr. Pos was appointed as the deputy chief executive officer. In January 2016, Mr. Pos succeeded Mr. Song as the chief executive officer of the Company.

XIA Xinyue (夏欣躍), aged 50, was appointed as an executive director of the Company on 10 November 2017, Chief Competitiveness Officer on 6 November 2017 and Chief Operating Officer on 28 May 2018. Mr. Xia is responsible for the Groups global supply chain strategy and its execution, including production, procurement and logistic. Mr. Xia is also responsible for core business processes optimization, organization development, sustainability development, competitiveness building up on quality, cost, innovations and digital transformations. Mr. Xia has extensive management experience in automotive industry for over 26 years. He was the president of the China division of the Faurecia Automotive Seating Business Group for more than 7 years managing 15 factories before he joined our Group. Prior to this, he served various positions within Faurecia Automotive Seating Business Group China division from plant general manager to deputy general manager of the China division. Before he joined Faurecia China in December 2004, Mr. Xia ever worked for different international companies of automotive industry in China. Mr. Xia obtained a bachelor's degree in Tele-Communication Engineering from the Shanghai Tiedao University in 1992. He also obtained a master of business administration degree from the DongHua University in 2001 and a doctorate degree in management science from the Shanghai Jiao Tong University in 2007.

Mr. Xia is currently a director of the following Group companies:

(i) Paragon Child Products Co., Ltd;
(ii) Goodbaby Child Products Co., Ltd*;
(iii) Ningbo Goodbaby Child Products Co., Ltd*;
(iv) EQO Testing and Certification Services Co., Ltd. *;
(v) CYBEX (China) Child Product Co.,Ltd; and
(vi) Goodbaby Child Products Pingxiang Co., Ltd.*

* *For identification purpose only*

DIRECTORS & SENIOR MANAGEMENT

LIU Tongyou (劉同友), aged 52, was appointed as an executive director of the Company on 21 February 2017 and Regional Chairman APAC on 15 July 2017. He is responsible for direct supervision and management of Group's finance, internal audit, IT, legal, investor relationship and M&A, and development and implementation of strategy and target for these areas in his direct supervision and management. Mr. Liu started to support the Group from 1994 and formally joined the Group in 1996. Mr. Liu was appointed as the Group's Chief Finance Officer in 2010 being responsible for the Group's finance, internal audit, legal affairs, investor relationship and M&A plus relatively new responsibility, IT matters. Before he was appointed as the Group's Chief Finance Officer, he had been our Vice President and responsible for finance management, internal audit and legal matters of the Group. Mr. Liu has over 20 years of experience in corporate finance, legal and business management. Mr. Liu received his bachelor's degree of science in 1989 and graduated from Tianjin University of Finance and Economics (天津財經大學) with a Master's degree in economics in 1992. Mr. Liu worked for a famous Economist, Jiang Yiwei (蔣一葦), as his academic secretary in 1992. He joined the Beijing Standard Consultancy Company (北京標準股份制諮詢公司) in 1993 as the business director and responsible for consulting on the restructuring as well as listing consultancy of a number of Chinese enterprises, including Haier Electric Appliance Company and Hainan Airlines Company.

Mr. Liu is currently a director of the following Group companies:

(i) Goodbaby (Hong Kong) Limited;
(ii) Goodbaby Child Products Co., Ltd*;
(iii) Paragon Child Products Co., Ltd;
(iv) Ningbo Goodbaby Child Products Co.,Ltd*;
(v) EQO Testing and Certification Services Co., Ltd. *;
(vi) Goodbaby Czech Republic s.r.o.;
(vii) Columbus Trading-Partners Japan Limited;
(viii) Goodbaby Europe Holdings Limited; and
(ix) Kunshan Goodbaby Yijia Retail Co., Ltd*.

Mr. Liu is also a director of PUD, a substantial shareholder of the Company.

Mr. Liu is a shareholder and director of Silvermount Limited. Mr. Liu is also a shareholder of Sure Growth Investments Limited, a substantial shareholders of the Company.

* *For identification purpose only*

Michael Nan QU (曲南), aged 52, was appointed as an executive director of the Company since 18 March 2014 and chairman for the Northern and Southern markets since 15 July 2017. Since December 2014, Mr. Qu has been primarily responsible for our Blue Chip Customers worldwide, working in a leadership role for the American market. Prior to this, Mr. Qu was our company's vice president, primarily responsible for managing key overseas accounts and strategic overseas resources. Mr. Qu joined us in 1994 and he is one of the founding members of the overseas business of the Group. Mr. Qu studied economics in the Economics School of Peking University from 1986 to 1989. He then went to the United States to study business administration at George Mason University from 1989 to 1992.

Mr. Qu is currently a director of the following companies in the Group:

(i) Goodbaby Children's Products, Inc. (also as an executive vice president);
(ii) Goodbaby (Hong Kong) Limited;
(iii) Goodbaby US Holdings, Inc.;
(iv) Serena Merger Co., Inc.;
(v) WP Evenflo Holdings, Inc.;
(vi) Evenflo Company, Inc.;
(vii) Evenflo Asia, Inc.;
(viii) Lisco Feeding, Inc.;
(ix) Lisco Furniture, Inc.;
(x) Columbus Trading – Partners USA Inc.;
(xi) Goodbaby Canada Inc.;
(xii) Muebles Para Ninos De Baja, S.A. De C.V.; and
(xiii) Goodbaby Europe Holdings Limited.

Mr. Qu is a shareholder of Sure Growth Investments Limited, a substantial shareholder of the Company.

NON-EXECUTIVE DIRECTORS

FU Jingqiu (富晶秋), aged 68, was appointed as a non-executive director of the Company on 10 November 2017. With her over 30 years of extensive experience in retail and distribution of juvenile products in China, Ms. Fu provides business operation guidance and advisory consulting services to the Group for development and management of its business in China market. Ms. Fu is the co-founder of Goodbaby China Holdings Limited (together with its subsidiaries collectively referred to "CAGB Group") and is now primarily responsible for the overall business management and strategic development of CAGB Group. Before founding of CAGB group, Ms. Fu was the vice president of Goodbaby Child Products Co., Ltd. ("GCPC"), from February 1993 to July 2010, where she was primarily responsible for retail and distribution of GCPC products in China market.

Ms. Fu is currently a director of the following companies in the Group:

(i) Shanghai Goodbaby Fashion Co., Ltd;
(ii) Goodbaby (China) Retail & Service Company;
(iii) Kunshan Goodbaby Yijia Retail Co., Ltd.*; and
(iv) Goodbaby (Nantong) Fashion Co., Ltd*.

Ms. Fu is an indirect shareholder and a director of Cayey Enterprises Limited and PUD, both of which are substantial shareholders of the Company.

Ms. Fu is a shareholder and a director of Sure Growth Investments Limited, a substantial shareholder of the Company. Ms. Fu is also an indirect shareholder and a director of Rosy Phoenix Limited, a substantial shareholder of the Company.

Ms. Fu is the spouse of Mr. Song Zhenghuan, the chairman and executive director of the Company.

* *For identification purpose only*

HO Kwok Yin, Eric (何國賢), aged 63, was appointed as a non–executive director of the Company on 1 February 2013. Mr. Ho was admitted as a solicitor in England and Wales in 1987 and as a solicitor in Hong Kong in 1988. He was a founding partner of Sidley Austin in Hong Kong and remained a partner of the firm until his retirement in 2010. Mr. Ho has over 30 years of experience in the legal profession with related expertise in international mergers and acquisitions and private equity transactions. Mr. Ho received a Bachelor of Social Science Degree from the Chinese University of Hong Kong in 1980.

DIRECTORS & SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Iain Ferguson BRUCE, aged 79, was appointed as an independent non-executive director of the Company on 5 November 2010. Mr. Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the senior partner of KPMG from 1991 until his retirement in 1996, and served as chairman for KPMG Asia Pacific from 1993 to 1997. He has been a member of the Institute of Chartered Accountants of Scotland since 1964 and is a fellow of the Hong Kong Institute of Certified Public Accountants. He is also a fellow of The Hong Kong Institute of Directors and Hong Kong Securities and Investment Institute. Mr. Bruce resigned as a non-executive director of Noble Group Limited, a company listed on The Singapore Exchange Securities Trading Limited, on 11 May 2017, resigned as an independent non-executive director of Citibank (Hong Kong) Limited on 2 August 2017, and resigned as an independent non-executive director of MSIG Insurance (Hong Kong) Limited on 1 July 2018.

Mr. Bruce is currently a director of the following listed companies:

(i) independent non-executive director of South Shore Holdings Limited (formerly known as The 13 Holdings Ltd.), a company listed on the The Stock Exchange of Hong Kong Limited (the "Stock Exchange");

(ii) independent non-executive director of Tencent Holdings Limited, a company listed on the Stock Exchange;

(iii) independent non-executive director of Wing On Company International Limited, a company listed on the Stock Exchange;

(iv) non-executive director of Yingli Green Energy Holding Company Limited, a company listed on the New York Stock Exchange.

Mr. Bruce has over 53 years of experience in the accounting profession and he possesses the accounting and related financial management expertise required under rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SHI Xiaoguang (石曉光), aged 73, was appointed as an independent non-executive director of the Company on 5 November 2010. Mr. Shi is the consultant of China Toy & Juvenile Products Association since 26 March 2015. In January 2012, Mr. Shi became the member of the Governance Board of the ICTI CARE Foundation. Mr. Shi has been elected as a new director of the ICTI CARE Foundation representing China since June 2016. Mr. Shi was formerly the chairman of China Toy & Juvenile Products Association (中國玩具和嬰童用品協會) (formerly known as the China Toy Association (中國玩具協會)) and a director of the International Council of Toy Industries since 2005. In October 2000, Mr. Shi was appointed as the vice-chairman of the National Technical Committee of Standardization for Toys by the General Administration of Quality Supervision Inspection and Quarantine. China Toy & Juvenile Products Association routinely provides information and holds training seminars on toy safety, product design and market development. The responsibilities of China Toy & Juvenile Products Association include recommending the safety standards and/or regulations of durable juvenile products, and to recommending the safety standards and/or regulations of other general toys and related products in the industry. Mr. Shi graduated from Beijing University of Chemical Technology (北京化工大學) (formerly known as Beijing College of Chemical Technology (北京化工學院)) with a Bachelor's degree in chemical apparatus and engineering in July 1974. Mr. Shi served as the vice-chairman of the department of general administration of The Ministry of Science and Technology from 1985 to 1987. He became a certified engineer in the PRC in September 1987, as granted by the State Scientific and Technological Commission (國家科學技術委員會). From November 1987 to November 1990, he served as the deputy general of China National Scientific Instruments and Materials Corporation (中國科學器材公司). Mr. Shi was appointed as the chairman of the service centre of The Ministry of Light Industry in 1989. From 1993 to 2007, he served as the general manager of China National Arts & Crafts (Group) Corporation (中國工藝美術集團公司) (formerly known as China National Arts & Crafts Corporation (中國工藝美術總公司)).

CHIANG Yun, aged 52, was re-designated as an independent non-executive director of the Company with effect from 23 May 2014. Ms. Chiang was a non-executive director of the Company for the period from 15 November 2007 to 22 May 2014 and a director of the Company for the period from 14 July 2000 to 14 November 2007. Ms. Chiang has over 25 years of private equity investment experience in Asia and is now the Founding Managing Partner of Prospere Capital Limited. She was a founding Managing Partner of the private equity business of Pacific Alliance Group ("PAG"). Prior to PAG, Ms. Chiang was a Vice President of AIG Investment Corporations. Ms. Chiang is an independent non-executive director of Sands China Ltd and Pacific Century Premium Developments Limited, both companies are listed on the Stock Exchange. Ms. Chiang was also appointed as a member of the Audit Committee and the Nomination Committee of Sands China Ltd on 14 October 2009 and 30 December 2016 respectively. In addition, Ms. Chiang was appointed as a member of the Audit Committee as well as the Remuneration Committee of Pacific Century Premium Developments Limited on 6 May 2015. From 1 January 2016 to 5 December 2019, Ms. Chiang was an independent non-executive director of Merlin Entertainments Plc., a company listed on London Stock Exchange. Ms. Chiang was also a member of Audit Committee and Health, Safety and Security Committee of Merlin Entertainments Plc. from 24 February 2016 to 5 December 2019. Ms. Chiang has an EMBA degree from The Kellogg Graduate School of Management of North-western University in the U.S. and Hong Kong University of Science and Technology in 1999. Ms. Chiang also received her Bachelor of Science degree, cum laude, from Virginia Polytechnic Institute and State University in the U.S. in 1992.

JIN Peng (金鵬), aged 44, was appointed as an independent non-executive director of the Company on 21 February 2017. Mr. Jin has over 19 years of experience in technology investments, entrepreneurship, financial advisory and corporate management. Mr. Jin started his career in 1998 as a member of Bear Stearns Asia's New Media & Telecom group. In 2000, Mr. Jin joined 21Vianet Group Inc. (NASDAQ: VNET) as an executive vice president where he was responsible for overseeing business development, product, marketing and international sales and was later appointed as a chief financial officer. From 2003 to 2007, Mr. Jin served as a partner in CEC Capital Group (formerly known as China eCapital Corporation) where he provided fund raising, merger and acquisition advisory services for growth stage companies in the PRC. In 2008, Mr. Jin co-founded Keytone Ventures, a venture fund focused on early stage technology investment opportunities with a total asset under management of US$420 million. Mr. Jin left Keytone Ventures in 2014 to start Emerge Ventures, a venture studio specializing in mostly seed and angel investments and incubating technology startups. Mr. Jin was appointed as Chief Operating Officer and Secretary of Bison Capital Acquisition Corp. (NASDAQ: BCACU) on 20 December 2016. In addition, Mr. Jin was appointed as an Executive Director of Cinedigm Corp. (NASDAQ: CIDM) on 1 November 2017. Mr. Jin obtained a bachelor's degree with a dual major in Finance and Information Systems from the New York University in 1998.

Save as otherwise disclosed, there is no relationship between any members of the Board except that Ms. Fu Jingqiu is the spouse of Mr. Song Zhenghuan, and no information relating to the directors which is required to be disclosed pursuant to Rules 13.51(2) and 13.51(B)(1) of the Listing Rules.

DIRECTORS & SENIOR MANAGEMENT

SENIOR MANAGEMENT

Johannes SCHLAMMINGER, aged 41, is the Executive Vice President Group Brand Portfolio Management and the CEO of the strategic brand CYBEX. He joined CYBEX in 2010 and has held various management positions within the Company. In November 2016, Mr. Schlamminger was appointed as CEO of CYBEX and in November 2017, he was appointed as Group's Executive Vice President responsible for group brand portfolio management while continuing his role as CEO of CYBEX as well as supporting product development and international sales for gb brand durable product. Prior to this, Johannes had worked as Head of Channel Business for ZF Electronics, a supplier of computer devices and electronic automotive parts, and was a professional basketball player at BBC Bayreuth. Through the many positions he was holding, Johannes was able to gain strong commercial and retail experience in the global juvenile industry. Paired with his excellent capabilities in customer understanding and attention to detail, this acquired knowledge lead to an exceptional commercial and operational record.

Rongfen JIANG (姜蓉芬), aged 47, is the CEO of the China market business and the CEO of the strategic brand gb. Ms. Jiang took over the responsibility for the group's business development in China as CEO of the China market business since November 2018. Additionally to this role, Ms. Jiang is also responsible for development of the gb brand globally as CEO of gb. Ms. Jiang joined the Group in February 2016 as General Manager of gb branded baby care business. Given her proven track record of achieving fast and profitable growth for the baby care business for two consecutive years, Ms. Jiang was then promoted to Senior Vice President to assume responsibility for the business of all the gb branded product categories in China. Before Ms. Jiang joined the Group, she had more than 15 years of experience in managing international fashion brands and retailing in China market.

Jon CHAMBERLAIN, aged 59, is the CEO of the strategic brand Evenflo. Mr. Chamberlain joined the Group in January 2017, bringing his proven track record of success in the juvenile industry. Mr. Chamberlain served as president of Americas for Britax from 2007 to 2015, leading a period of dramatic growth and profitability. Before joining Britax, Mr. Chamberlain served as president for Irwin Tools, a division of Newell Rubbermaid, and President of Swingline Tools, a division of ACCO Brands. Mr. Chamberlain holds a Masters in Business Administration from Loyola University in Maryland.

COMPANY SECRETARY

HO Siu Pik (何小碧), is an Executive Director of Corporate Services of Tricor Services Limited ("Tricor"), a global professional services provider specializing in integrated Business, Corporate and Investor Services. Ms. Ho has over 20 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Ho is a Chartered Secretary and a Fellow member of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Institute of Chartered Secretaries and Administrators ("ICSA") in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKICS.

Goodbaby International

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OVERVIEW

This is the third Environmental, Social and Governance Report ("ESG report") of Goodbaby International Holdings Limited ("the Group", "we" or "us"). The report covers the financial year from 1 January 2019 to 31 December 2019 (the "Reporting Period").

BASIS OF PREPARATION

This report has been prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "Guidelines") contained in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited issued by the Stock Exchange of Hong Kong Limited ("HKEX"). The disclosure in this report complies with the disclosure requirements of the "comply or explain" as set out in the Environmental, Social and Governance Reporting Guide.

To create this ESG report, we have identified important stakeholders, identified important ESG issues, determined the scope of the report, collected relevant materials and data, prepared the report based on the information collected, and reviewed information included.

REPORTING SCOPE AND BOUNDARIES

Unless otherwise stated, the policies, statements, and data included in this Report cover the Group and its subsidiaries at home and abroad. The key environmental performance indicators cover our manufacturing plants (eleven) and offices around the world, as well as our self-operated outlets in the People's Republic of China (PRC).

DATA SOURCES AND RELIABILITY ASSURANCE

The data in this Report comes mainly from the Group's statistical reports and other relevant documents. We believe that it is true and accurate in all material respects, and does not contain misleading statements. We take responsibility for the authenticity, accuracy, and completeness of its material contents.

CONFIRMATION AND APPROVAL

After receiving approval from the management, this Report was approved by the Board of Directors on 24 March 2020.

2019 KEY ESG PERFORMANCE

PRODUCTS

0 Recall events

China Design Excellence Gold Award gb Swan Stroller

Red Dot Design Award 4 products

G-Mark Award ORSA Plus Stroller

ENVIRONMENT

↓ **16.9%** total mass of main pollutants in wastewater discharge

↓ **3.0%** total energy consumption

↓ **4.9%** greenhouse gas emissions

SAFETY

0 Occupational fatalities

EMPLOYEES

Nearly **1,000** training courses

30,726 training hours delivered

SOCIETY

1,308 hours spent on volunteer activities

1,202,969 HKD donated to charity and volunteer organizations

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR ESG PHILOSOPHY

Our ESG philosophy has been developed based on our strategic goal of building a global parenting ecosystem. Internally, we put principles of responsible operation into practice, encourage innovation, and engage in smart manufacturing in our pursuit of the highest quality standards. Externally, we prioritize environmental protection, involve employees in the Group's development, give back to society in various ways, and engage closely with the communities where we operate. With a presence across the entire value chain of the global parenting ecosystem, we are constantly striving to become more customer-centered, to exploit our unique abilities, and to operate our platform efficiently. We believe we have a responsibility to create social value, and so we strive to "care for children, serve families, and give back to our wider society".

STRATEGIES FOR RESPONSIBLE GOVERNANCE

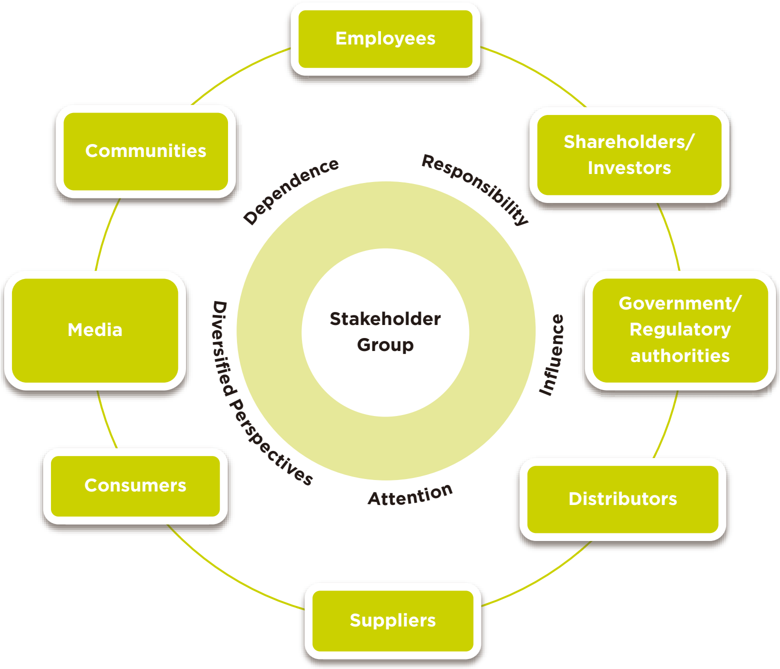
ESG GOVERNANCE

The Group operates a three-tier governance structure consisting of the Board of Directors, the CEO, and the ESG Working Group. This three-tier structure has been effective in enhancing our routine supervision of ESG governance, our implementation of ESG strategies, and our management and control of ESG related risks. The Board of Directors plays a direct role, promoting ESG management from the top down. The CEO directly manages and supervises ESG work. The ESG working group, consisting of dedicated personnel, is tasked with executing specific ESG work.

Board of Directors	CEO	ESG Working Group
• Assesses and determines the Group's ESG risks • Considers and decides on ESG objectives • Ensures that the Group sets up appropriate and effective ESG risk management and internal control systems • Approves ESG-related policies • Approves the ESG report	• Implements the ESG risk management and internal control systems • Guides the work of the ESG working group • Develops ESG-related policies, and submits them to the Board of Directors for consideration and approval • Confirms the accuracy of performance indicator data in the ESG report • Submits the ESG report to the Board of Directors for approval	• Establishes and maintains ESG-related policies • Supervises the implementation of ESG policies and the achievement of ESG objectives • Assigns responsible personnel to collect ESG-related materials and prepare the ESG report • Regularly reports to the Group's management to assist it in evaluating the accuracy and effectiveness of the Group's ESG risk management and internal control systems

COMMUNICATION WITH STAKEHOLDERS

We value the views of our stakeholders and are committed to maintaining diversified and effective two-way channels for stakeholder communication. We have identified those key stakeholder groups with decision-making power or influence over the Group and/or close relationships with the Group (e.g. contractually or geographically) based on five attributes: responsibility, influence, attention, diversified perspectives, and dependence.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

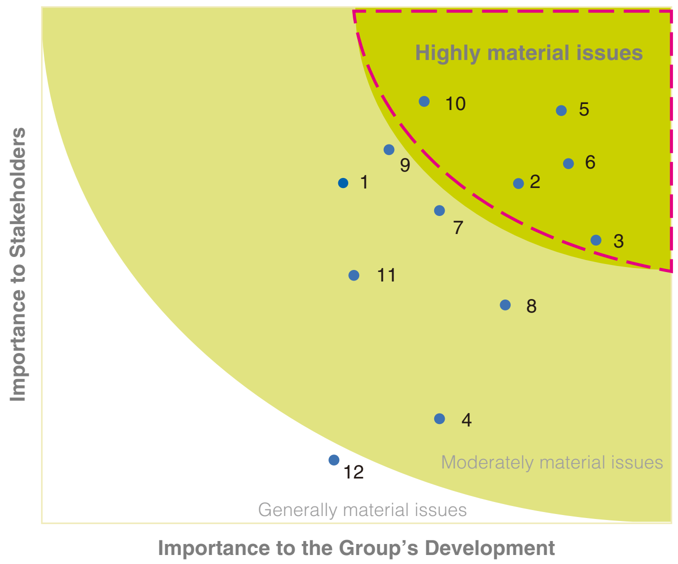
We actively communicate with all our stakeholders in a variety of ways and provide channels through which they can express opinions and make suggestions. We also take active measures to ensure that the key concerns of stakeholders are thoroughly understood, that we respond effectively to their concerns, and that we regularly examine the effectiveness of our responses, as summarized in the table below.

Stakeholder Group	Key Concerns	Communication Channels	Frequency
Employees	• Employee health and safety • Employee relations and employee development • Employee equality	• Interviews with employees • Internal emails • Internal WeChat account	• Regularly as required
Shareholders/ investors	• Business development • Corporate governance	• General meeting/Investor meeting • Results announcements • Press releases and announcements	• The General meeting is held once a year • Other channels are used regularly as required
Government/ regulatory authorities	• Resources, energy consumption • Emissions compliance • Business ethics	• Field research • Meetings • Written applications, explanations and reports	• Regularly as required
Suppliers	• Business development • Supplier's social responsibility performance • Business ethics	• Field research • Supplier assessments • Supplier conferences	• A Supplier Conference is held once a year • Other channels are used regularly as required
Distributors	• Product safety and quality • Innovation and R&D • Intellectual property rights management	• Early involvement in R&D of new products • Written reports/emails • Field research	• Regularly as required
Consumers	• Service quality • Product safety and quality	• Official website • Offline stores • WeChat account • Customer service hotlines • Social media	• Regularly as required
Media/social organizations	• Business development • Product safety and quality • Community relations maintenance and public welfare	• Press releases/ announcements • Interviews/meetings • Industry summits	• Regularly as required

MATERIALITY ANALYSIS

During the Reporting Period, we held over 20 on-site and phone interviews with internal and external stakeholders to understand their main concerns regarding the Group's ESG practices. Through peer benchmarking analysis and analysis of views expressed by the public and in the media, material issues affecting the Group were identified. The matrix of materiality for the year was developed after prioritizing the various issues identified during the interview process, and evaluating their impacts on the Group's strategic operations and on its stakeholders.

Goodbaby International Holdings Limited
Materiality Matrix



Issue of Materiality		No.
Business and Governance issues	Business development	1
	Corporate governance	**2**
	Innovation, R&D and intellectual property rights management	**3**
	Integrity operation and business ethics	4
	Product safety, quality and services	**5**
Environmental issues	**Resources, energy consumption and carbon emissions reduction**	**6**
	Discharge of pollutants and greenhouse gas emissions	7
Employee issues	Employee equality	8
	Employee health and safety	9
	Employee relations and development	**10**
Social issues	Suppliers' social responsibility performance	11
	Community relations maintenance and public welfare	12

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTEGRITY IN OUR OPERATIONS

We are a company dedicated to improving the lives of families with children. In line with this, we act in strict accordance with the laws, regulations and relevant provisions of the regulatory authorities of the jurisdictions where we operate. Our goal is to foster an operating environment characterized by honesty, integrity, and fairness. We are achieving this through fair competition and effective integrity management.

Fair Competition

The Group adheres to high standards of business ethics, emphasizes fair competition, and strictly complies with the relevant competition laws and regulations of the jurisdictions where we operate. We take a firm stance against unfair competition of all kinds, such as monopoly, illegal competition, undermining of the market environment, and violation of competition rules. During the Reporting Period, the Group was not involved in any lawsuit in relation to unfair competition.

Integrity and Compliance

The Group strictly abides by all anti-corruption laws and regulations of the jurisdictions where we operate, and resolutely opposes bribery and corruption in all forms. In recent years, we have strengthened and improved our integrity management mechanisms. This has involved developing an *Anti-Corruption Policy* and a *Whistleblowing Policy*, which explicitly require all employees (as well as relevant external personnel) to comply with anti-corruption laws and regulations of the jurisdictions where we operate, and which encourage employees, customers, suppliers, and other stakeholders to report potential illegal activities. We have also set up whistleblowing hotline and developed a multi-level supervision mechanism to accelerate investigations into illegal activities. During this process, whistleblowers are assured of protection against unfair dismissal, victimization or unwarranted disciplinary action.

We also require our employees and relevant external parties to engage with our *Anti-Corruption Policy* so that they are explicitly familiar with our integrity principles and are encouraged to report any potential illegal action without hesitation. During the Reporting Period, the Group was not involved in any lawsuit in relation to corruption.

Employee Integrity Training

The Group regularly provides employees with integrity training on topics such as anti-corruption policies and regulations, as part of our commitment to building and maintaining a transparent internal control environment that complies with all relevant laws, regulations and best-practice business ethics. In 2019, the Internal Audit Department of the Group provided both on-site and online training sessions on our whistleblowing policies for our global workforce. These enhanced employees' ability to identify and report various types of non-compliant behavior, such as business misconduct, personal misconduct, and fraud.

Whistleblowing training session in China

Online whistleblowing training in the U.S. and Europe

TECHNICAL INNOVATION DRIVING EXCEPTIONAL PRODUCTION

INNOVATION IN R&D

Our product excellence is built on a strong foundation of technical innovation. The Group invests heavily in high-quality technology and design in the field of children's products. We have a scientific product design and innovation system in place that is enabling us to continuously upgrade our products.

To better serve consumers in different countries and regions, we develop products with different features targeted at local markets and lifestyles. To this end, we have established seven R&D centers in Europe, the PRC, and the U.S..

4 Goodbaby and CYBEX products won the Red Dot Design Award

Drifter, a ride-on vehicle for children aged three to six, not only enables children to enjoy 'drifting' but also enhances their physical skills while providing them with exercise.

The Eezy S+ is a lightweight and versatile stroller that offers agile maneuvering and easy, compact storage.

The Cloud Z i-Size infant car seat enjoys an ideal symbiosis of safety and design, providing ergonomic, comfortable and secure travel from day one.

The Solution Z i-Fix car seta is designed to grow with the child, with 12 height settings and automatic width adjustment tracking for every stage in their growth from 3 to 12 years of age.

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gb Swan won the China Design Excellence Gold Award

- The China Patent Awards are the only government-granted awards in China that specifically reward inventions that have obtained patent rights. In 2019, the gb Swan stroller was honored with a China Design Excellence Gold Award at the 21st China Patent Awards.

- The gb Swan revolutionizes baby strollers, which are generally baby-friendly but mother-unfriendly, to make childcare easier than ever.

ORSA Plus Stroller awarded G-Mark in 2019

- The Good Design Award (G-Mark) is one of the most recognized and influential design awards in Asia, renowned as the “Academy Awards of the design world in the East”.

- ORSA Plus, the product that won the award in the Reporting Period, is an aesthetically designed stroller dedicated to enhancing user experience. Light and ingenious, it passes through subway turnstiles easily. When folded, it fits into the trunk of a car.

Research Collaborations with Academia

We have made significant efforts to collaborate with the academic world on various research projects. By introducing high-quality resources from universities and society, we have developed an industry-leading network based on theoretical knowledge and advanced technologies. During the Reporting Period, the Group launched a number of research collaborations with academia, as outlined in the table below.

Academician Tan Jianrong hired as Chief Scientist

- Mr. Tan Jianrong is an academician of the Chinese Academy of Engineering and an expert on mechanical engineering and artificial intelligence. His research mainly concerns mechanical design and theory, computer-aided design and graphics, digital design and manufacturing.
- In April 2019, Mr. Tan was appointed as the Group's Chief Scientist. He has set up an Academician Workstation at Goodbaby.
- Mr. Tan's work focuses on the application of cutting-edge technologies such as Artificial Intelligence, 5G, and Internet of Things to children's products.

Industry-University Research Cooperation with Suzhou University

- Suzhou University is the most prestigious local university in Suzhou. Goodbaby launched an industry-university research cooperation project with Suzhou University which is drawing on the talents and technology resources of the university to achieve innovations in line with Goodbaby's technological directions.
- At present, cooperation with Suzhou University mainly focuses on the development of a Company Aided Engineering (CAE) simulation platform for baby strollers. The aim is to apply CAE capabilities in car seat development to baby strollers, thus improving their design efficiency.

Establishment of Suzhou Goodbaby Qingtao Technology Services Co., Ltd.

- Qingtao Energy Development Co., Ltd. is a key innovation project launched by Tsinghua University and Academician Nan Cewen of the Chinese Academy of Sciences in Kushan.
- In April 2019, a new technical firm jointly funded by Goodbaby and Qingtao New Energy, Named Suzhou Goodbaby Qingtao Technology Services Co., Ltd., was established to integrate Qingtao's strengths in solid-state lithium batteries and Goodbaby's strengths in branding and communication channels, and to apply solid-state lithium battery technologies to Goodbaby's children's sports products.

Joined Seamless Joint Innovation Lab

- The Seamless Joint Innovation Lab is a global organization. Goodbaby joined the Seamless Joint Innovation Lab on 25 July 2019, with the aim of enhancing our R&D resources, widening our R&D horizons, and locating new technical resources from around the world for application to our products.

Leading the Industry

With the aim of being an industry leader in terms of quality and safety standards for children's products, we are taking the lead in developing or participating in the development of domestic and international industry standards. This is not only boosting our professional status in the industry but giving us the opportunity to share our experience and promote the development of the industry.

Internationally, the Group has played a leading role in the development of ISO 31110 for Wheeled Child Conveyances. To promote related stroller research, we established the Secretariat of ISO/PC 310 for Wheeled Child Conveyances and completed a first draft of the relevant standards during the Reporting Period. Currently, responsibility for the project is being transferred from the Project Committee to the Technical Committee. Discussions are underway with overseas partners on product classification and cooperation methods, and preliminary consensus has been reached. Since the establishment of the Secretariat, we have led or participated in the development of 186 domestic and international standards and formed the world's first local standard for high-speed vehicle car seats, namely the *Technical Requirements for High-speed Vehicle Child Car Seats*.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Some other standards drafted by the Group are as follows.

No.	Title	Standard No.	Level
1	Production Label for Child Restraint System of Power-Driven Vehicles	GB/T 36120-2018	China national standards
2	Model Coding Rules and Identification Number of Child Restraint System	GB/T 36124-2018	China national standards
3	Quality Management Systems	GB/T 19002-2018	China national standards
4	Determination of Organophosphorous Flame Retardants in Toys	GB/T 36922-2018	China national standards
5	Safety requirements for playmats for young children	T/CTJPA 005-2018	Organization (China Toy and Juvenile Products Association)

Selected as a 2019 Enterprise Standard Forerunner, guiding the development of the baby care products industry

The Enterprise Standard Forerunner System was established in June 2018 by the China State Administration for Market Regulation, China National Development and Reform Commission and another six ministries and commissions, to strengthen enterprise standard leadership and to set examples for industry.

On 6 November 2019, at the Annual Summit of Enterprise Standard Forerunners, several standards developed by the Group—the representative of the child care products industry—were selected in the list of 2019 Enterprise Standard Forerunners.

At the roundtable session of the summit, the representative of Goodbaby Child Products Co., Ltd., joined the discussion together with leaders from other well-known enterprises. The panelists shared their views on various pressing current issues, such as:

- Improving standards, quality, and branding
- Understanding the relationship between technological development and standards iteration
- Better handling the relationship between intellectual property rights and standards
- Winning the trust of consumers and the market

Intellectual Property Rights Management

The Group has developed an intellectual property rights system based on patents, standards, trademarks and copyrights, which is helping us ensure all our development initiatives are innovation-driven and of the highest quality.

- **Pilot Studies:** We draw on global resources to analyze the direction of current developments in child care products, the various paths of technological innovation, and market trends relating to key technology breakthroughs.

- **Patent Portfolio:** Our core patents represent solutions to technological gaps in the field. We are also extending our patent portfolio to cover various emerging areas in child care products.

- **Intellectual Property Analysis and Utilization:** We use our big data platform for patent information analysis to search and analyze global patent data, and to provide us with multi-level, multi-dimensional indexing of patent data from different technological subcategories. This is significantly enhancing our ability to locate and apply relevant global patent technology information to our product development.

As at 31 December 2019, the total number of the Group's historically granted patents reached 10,289.

In the PRC, the Group protects its intellectual property rights worldwide through administrative and legal means, cooperation with customs, and litigation. In other regions, our marketing and product development staff notify the legal department as soon as possible if they notice competitive products or marketing materials that potentially infringe our intellectual property rights. Our legal team then investigate further and follow up as required.

During the Reporting Period, we discovered, reported and addressed several cases of intellectual property infringements. These included an infringement relating to the "Monster Fish Electric Scooter", counterfeit "gb" and "Goodbaby" self-balancing scooters, and a baby-care stroller invention patent infringement. In December 2019, Manzhouli Customs in Inner Mongolia tracked down and seized infringing baby carriages. The prompt addressing of these cases not only safeguarded the Group's legal rights and interests, brand, and reputation, but also helped protect the safety of users.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Driving development by protecting intellectual property rights

Since its establishment, the Group has always looked to rigorously protect its intellectual property rights. To celebrate the 19th World Intellectual Property Day, on 23 April, 2019, we invited leaders from the Jiangsu Intellectual Property Court, the Supreme People's Court of Jiangsu Province, the Nanjing Intellectual Property Tribunal, the Nanjing Intermediate People's Court and the Suzhou Intermediate People's Court, as well as journalists from publications including People's Daily, Xinhua News Agency, China News Service, Legal Daily, Modern Express, People's Court Daily, Xinhua Daily, Yangtse Evening Post, and Jiangsu Legal News, to our company to witness the ways in which we protect our intellectual property rights. On the occasion, we also organized a symposium on "Innovative development and intellectual property protection for enterprise development". Mr. Song Zhenghuan, founder of the Group and Chairman of the Board of Directors, accompanied the guests on their visit and shared our experiences of championing originality and following the path of innovation over the past 30 years. He emphasized that insisting on a strict crackdown on counterfeit goods is essential for stimulating the spirit of innovation.

QUALITY AND SAFETY

As a world-leading baby care products provider, product quality and safety are crucial to us, and a major emphasis of our operation management is on these areas. "Absolute safety and ultimate user experience" is our quality assurance slogan. To protect the millions of families that use our high-quality products, we are continuously enhancing our quality culture and management system, upgrading our production facilities, integrating our resources and improving our inputs on quality and safety.

System Management

We carry out our quality management activities to achieve four goals, namely to improve our quality and safety management system, to incorporate the requirements of the automotive industry and the food industry, to take the lead in the development of global standards, and to maintain the largest and most advanced state-recognized laboratory in the industry. On the basis of *GB/T 19580 Criteria for Performance Excellence*, we have formulated a comprehensive quality management system focusing on preventing quality defects. This system incorporates not only the *ISO 9001* Quality Management System, but also the quality and safety standards of various specific industries, such as *TS 16946 (Special Requirements for the Implementation of ISO 9001 for Automotive Industry Organizations Providing Production Parts and Relevant Service Parts)* of the automotive industry, *HACCP (Hazard Analysis Critical Control Points System)* of the food industry, *and ISO 17025 (General Requirements for the Competence of Testing and Calibration Laboratories)* in relation to laboratories.

Process Management

In terms of manufacturing, since 2017 the Group's production plants have combined the existing performance excellence model and the model enterprise management excellence system to create the in-house '*Goodbaby Excellence System*' (GBES).

Each year, we evaluate our production plants using five criteria: safety, quality, cost, delivery, and morale. During the Reporting Period, we rebuilt several assessment modules in terms of quality management according to actual executions, and refined and updated the rules for the operation and assessment rubrics. The assessment results from the Reporting Period showed that the scores of all our production plants had improved significantly over the previous year.

Upgrades for Improved Quality

Our manufacturing hardware is of fundamental importance in ensuring product quality and brand competitiveness. As the Group has developed, we have continuously introduced high-precision, automated production equipment. During the Reporting Period, we specifically improved the quality and efficiency of the production equipment at our production plants in Piqua, Ohio, U.S., and Tijuana, Mexico.

- To ensure that the correct number of products are loaded for each order, we installed printers in series on the conveyor belt for loading trailers. The printer uses barcode technology. If a number is inconsistent with order information, the loading conveyor will automatically stop and sound the alarm.

Automatic label printer implemented in conveyance operation

- To ensure the quality of each fastener installation, we implemented a “smart arm” screw gun work station in the new product assembly unit that uses torque measurement, “XYZ” coordinate measuring, and operation sequencing.

Implemented “smart arm” screw gun work station in the new product assembly unit

- To improve our ability to recognize weight changes and ensure product quality and integrity, we launched automatic packaging cells in the injection molding operation, where the automatic packaging arm performs multiple weight measurements on each packed accessory box.

Implemented automatic packaging cells in the injection molding operation

US Plant

- We implemented a new assembly table for Model 202 in August 2019 to standardize processing times and methods for all production lines.

Implementation of new assembly table

- We installed semi-automatic conveyor belts in the new-type painting workshop in March 2019 and put them into use. This improvement aimed to increase the automation level of operations, improve production performance and simplify the maintenance of new fixtures. This measure improved the distribution of the process flow, reduced the number of employees involved, and improved work efficiency.

New semi-automatic conveyor belt in the painting workshop

Mexico Plant

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, our Car Seat Acceleration Vehicle Laboratory conducted an ADAC[1] collision project study, utilizing test equipment and test methods that are benchmarked with the German ADAC Collision Laboratory. The efforts of the laboratory team saw our Car Seat Acceleration Vehicle Laboratory become the first and only laboratory in the PRC to complete ADAC car seat collision tests. The test is highly regarded by experts and customers for its professionalism and accuracy. With technologies capable of testing products up to the speed of 80km/h, our laboratory has the test capabilities according to regulations and standards including *R44[2], R129[3], China Child Car Seats Safety Standards, FMVSS 213[4], C-NCAP[5] management regulation*, and *ADAC testing criteria*. In addition, our laboratory is a CCC[6] – certified designated laboratory in the area of safety belts.

Quality Culture

A sound quality culture is reflected in our habits, concepts, attitudes, and behavior, and is a cornerstone of quality management. To ensure that our quality culture is internalized and implemented by our employees, we have developed a quality policy of "quality, innovation and service". The basis of our quality management culture is "quality first, zero defects and zero tolerance". We strive to be a world-class customer-centric enterprise offering excellent product quality and services, as expressed in our slogan 'Complete Customer Satisfaction'.

[1] *ADAC, Allegemeiner Deutsche Automobil-Club*
[2] *R44, ECE R44 EU Safety Regulation for Child Car Seats*
[3] *R129, ECE R129 EU Safety Regulation for Child Car Seats*
[4] *FMVSS 213, Federal Motor Vehicle Safety Standard No. 213*
[5] *C-NCAP, China-New Car Assessment Program*
[6] *CCC, China Compulsory Certification*

Promoting a quality culture – the Goodbaby 2019 Quality Knowledge Competition

To build knowledge, innovation, and skills in our team, in September 2019 the Human Resources Department, Labor Union, Communist Youth League branch, Group Commission, and Quality Assurance Center of Goodbaby China and production plants around China held the 2019 Quality Knowledge Competition in the Lujia Town Cultural and Sports Center.

This quality knowledge competition was effective in giving production line operators an understanding of the principles of in-line quality control and helping them take the initiative to standardize their operating procedures. It also provided participants with suggestions for in-line quality improvements. All of this greatly improved the Group's quality management.

Registration

Pre-competition app events

第2题：本次活动的核心目的是？ [单选题]

选项	小计	比例
打造好孩子知识型质量铁军	130	80.25%
打造好孩子技能型质量铁军	14	8.64%
打造好孩子创新型质量铁军	18	11.11%
本题有效填写人次	162	

After-event questionnaire

A scene from the Competition

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Recall Management

To protect consumer health and safety and prevent risks caused by potential defective products, we have set up a Safety Committee responsible for the overall management of matters related to product safety. The Safety Committee closely monitors the quality of all types of products following their market launch. If a product defect is identified, an investigation led by the Safety Committee will start within 24 hours to analyze both the product risks and the market risks. If a recall is considered necessary, we will develop and execute a recall plan in accordance with management regulations.

During the Reporting Period, there were no product recall events caused by quality and safety-related product defects.

Quality Achievements

We actively participate in various quality-related events and awards competitions. These not only help us to obtain quality information and improve transparency, but also to promote our quality management achievements to society.

During the Reporting Period, we took part in the following major activities in the PRC, among others:

- Jiading-Kunshan-Taicang Quality Month event
- "Enterprise Standard Frontrunner" event, where we were awarded the title of "Enterprise Standard Frontrunner"
- 14th Jiangsu Quality Journey event and the first Jiangsu Craftsman Launch Conference
- Launch ceremony of the Jiangsu-Zhejiang-Anhui Jiangxi-Shanghai Quality Month Joint Actions event. President Song Zhenghuan delivered a keynote speech as a representative of Jiangsu entrepreneurs
- 2019 Jiangsu Quality Month event, organized by the Jiangsu Provincial Quality Association
- Launch ceremony of the "Commitment to Refund with No Reason Provided within Seven Days of Yangtze River Delta Enterprises" event, organized by the Zhejiang Provincial Market Supervision Bureau

Goodbaby Ultimate Quality Assurance Model showcased during Quality Month

On 2 September 2019, the Jiangsu-Zhejiang-Anhui-Jiangxi-Shanghai Quality Month Joint Actions launch ceremony was held in Nanjing. This was China's 42nd Quality Month, the 17th since Jiangsu, Zhejiang, Anhui, Jiangxi, and Shanghai began their cooperation, and the first since the establishment of the Jiangsu Provincial Market Supervision Commission.

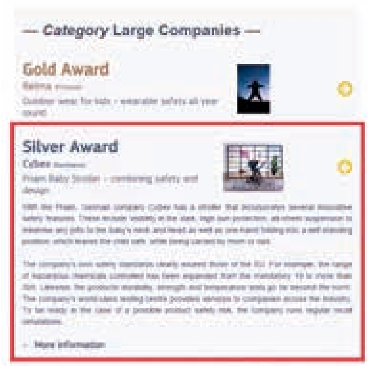
The Goodbaby Ultimate Quality Assurance Model was showcased throughout the Quality Month, with its innovative high-quality development concept.

At the launch ceremony, Mr. Song Zhenghuan, founder of the Group and Chairman of the Board of Directors, shared the Group's "Quality First, Zero Defects, Zero Tolerance" quality assurance model, which is providing families with children around the world with a guarantee of absolute safety and exceptional user experience.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has built a great reputation for product quality and safety over the years, winning a number of quality and safety awards at home and abroad. During the Reporting Period, the Group was recognized as a "*2019 Outstanding Unit for Promoting Comprehensive Quality Management*" by the China Quality Association. Our CYBEX brand won the first "*EU Product Safety Award*", while our PRC laboratory won a "*2019 Suzhou Quality Award*" and many other quality awards.

Outstanding Unit for Promoting Comprehensive Quality Management in 2019



Winner in the first EU Product Safety Award

HIGH-QUALITY SERVICES

As part of our commitment to providing customers with quality services, we have provided after-sale services in the countries where our customers locate. In the PRC, we continued to strictly implement our customer service management regulations, standards, and norms, including our *Management Procedures for Customer Service Communication* and *Management Procedures of Faulty Reporting by Users*. We are continuously exploring ways of improving service quality at pre-sale, sales, and after-sales stages, in line with the increasingly diverse needs of our customers.

Customer Service

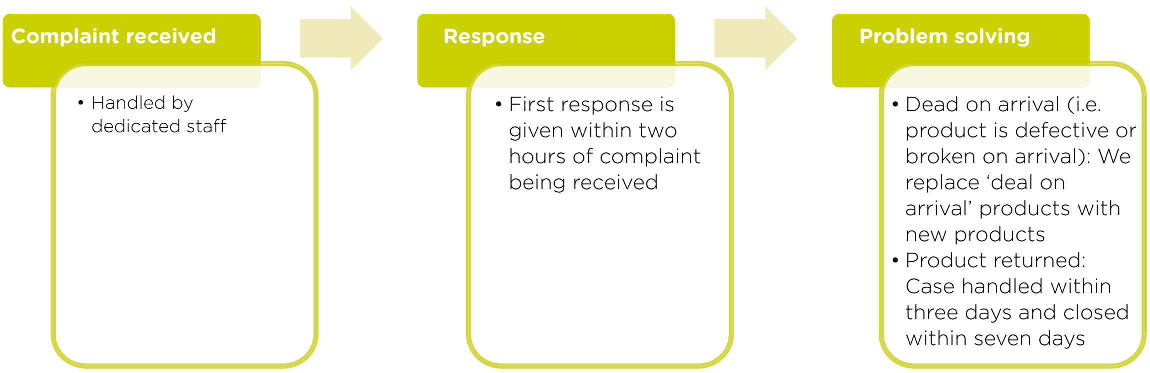
In relation to customer services, we have established customer service hotlines across the world, and have also increased the range of online customer service channels we provide, such as email, social media platforms, and apps. As for customer service hotlines, we operate call centers backed by customer management system (CRM) that caters to customers at home and abroad. Customers of products purchased through both offline and online channels can call the hotline 24/7 to report issues, make inquiries, and seek guidance on installation/assembly. This is allowing us to provide fast, responsive services for customers everywhere.

We provide offline customer services in department stores around the world, working with subsidiaries and distributors. In addition to retail counters, we operate 36 service centers and 830 designated service stations in the PRC, forming a nationwide warranty network that provides reliable, trustworthy, and convenient services.

Complaint Management

We place great weight on resolving requests and complaints made by our customers. To this end, we have established a series of customer communication processes designed to provide customers with rapid complaint resolution solutions through our global distribution and service system.

The Group has established global complaint management guidelines. Our product quality complaint resolution process in the China market is as follows:



For countries other than PRC, we collect and track all customer complaints made through customer service channels and social media platforms. To speed up the complaint decision-making process and improve customer satisfaction, we report and review complaints at our regular Customer Perspective meetings, with a senior management presence.

During the Reporting Period, we focused on problems associated with standardized employee operations and supplier quality as a way of further optimizing our customer complaint handling and management processes.

- Rate of complaint resolved in a timely manner introduced as a KPI: following the 8D *(Eight Disciplines Problem Solving)* method, we included 'rate of complaint resolved in a timely manner' as a new KPI. Moreover, we now review the number of complaints and their timely closure rate for each production plant, on a monthly basis. If a plant fails to achieve its goals, it is required to form an action plan and report it to management.

- Standardized operation for complaint improvement: To ensure quality, personnel from production plants in the PRC are required to perform self-inspections each week, while the Group will perform inspections on a quarterly basis.

- Supplier quality improvement: During the Reporting Period, we completed audits of 452 suppliers based on quality problems reported by customers. Suppliers below average were required to formulate an improvement plan, with guidance from the Group. Suppliers that fail to improve and rectify their problems will be removed from the Group's supplier list.

In addition to managing complaint cases, we also monitor and analyze product-specific complaints and complaint rate trends, through which we identify the sources of problems using root cause analysis. We send quality alerts about potential quality risks and follow up to ensure proper resolution. If a complaint is related to key product models or their sales channels, the Group will establish an inter-departmental team to handle the case, and then reflect on the solutions through a 'lessons-learned' process.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Upgraded work order circulation for improved quality and efficiency of after-sales services

To quickly respond to customers' service needs, improve customer experience, and reduce the time for product repair and return, we identified the 'pain points' in after-sales work order circulation and redesigned the circulation process for work orders. This involved reducing intermediate links, asking the general warehouse or suppliers to directly dispatch required parts, and sending dedicated personnel for follow-up to reduce costs and improve efficiency. These measures have not only greatly shortened the supply cycle of parts, but have also made accessories traceable, which in turn has forced suppliers to enhance their quality. Since the implementation of these measures, the work order three-day resolved rate has increased from 5% to 41%, and the complaint rate has dropped from 3% to 0.6%. The improvements have received highly positive feedback from customers and employees alike.

Satisfaction Survey

Each year, the Group conducts a customer satisfaction survey in accordance with its *Customer Satisfaction Control Procedures* and *Customer Satisfaction Evaluation Procedures*. The survey includes eight project modules, including modules on product safety, product appearance, and product delivery. After completing the survey, we investigate any low-scoring modules and customer complaints, and develop improvement measures. To ensure their implementation, we require departments responsible for problems to set up improvement programs and develop improvement goals and action plans. In recent years, the Group's customer satisfaction rate has risen steadily. During the Reporting Period, the customer satisfaction rate was 87.1%.

Customer Privacy Protection

We have an obligation to protect customer privacy and business information. We operate in strict accordance with the relevant laws and regulations of the jurisdictions in which we operate, such as the *Cyber Security Law of the People's Republic of China* and the *EU General Data Protection Regulation*, to strictly safeguard private information. We continue to implement the management principles defined in our *Information Security Policy* for the collection, storage, and use of employee, customer, and other business information online. We monitor and evaluate information security risks in a timely manner and strive to identify and address problems as soon as possible. As for information utilization, we restrict access to and the authority to handle information to ensure that employees can only access information related to their work, thereby reducing the risk of data leakage.

ENVIRONMENTAL PROTECTION FOR THE LONG TERM

We are committed to protecting human health and the global environment, and we apply 'green management' concepts right across our production and operation processes. Through continuous innovation, we are striving to improve our resource efficiency, reduce our environmental impact, and channel our corporate responsibility commitments in ways that promote green partnerships and contribute to a better future.

The Group strictly abides by relevant environmental laws and regulations, including *the Law of the People's Republic of China on Environmental Protection, the Law of the People's Republic of China on Prevention and Control of Water Pollution, the Law of the People's Republic of China on Prevention and Control of Air Pollution, the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes, the U.S. Federal Hazardous Substances Act ("FHSA"), the U.S. Clean Air Act ("CAA"), European Union Waste Framework Directive*, and other environmental laws and regulations of the jurisdictions in which we operate.

During the Reporting Period, the Group's eleven production plants, located in the PRC, the United States and Mexico, together with its hundreds of sales distribution platforms around the world, have actively improved their environmental management and operating efficiency in ways that are building a solid foundation for the Group's sustainable development.

CONSERVING RESOURCES

The Group strictly abides by the laws and regulations of the jurisdictions where we operate that govern our use of resources and energy in production and operation. These include *the Energy Conservation Law of the People's Republic of China, the Water Law of the People's Republic of China, the Administrative Measures for Industrial Water Conservation, the Opinions on Strengthening Industrial Water Conservation, the Management Rules for Recycling and Disposal of Waste Electrical and Electronic Products, the Clean Water Act ("CWA"), the U.S. Energy Independence and Security Act of 2007, and the U.S. Energy Policy Act of 2005*. We aim to continuously reduce our energy consumption and greenhouse gas emissions, and actively improve the efficiency of our use of resources.

Water Resources Management

The main source of the water used for Group's production and operation activities is the municipal water supply. To enhance our water consumption efficiency, we have implemented a series of water-saving renovation initiatives. During the Reporting Period, the Group's total water consumption was as follows:

	2019		2018	
	Total mass (tonnes)	Intensity (tonnes per HK$1 million revenue)	Total mass (tonnes)	Intensity (tonnes per HK$1 million revenue)
Total water consumption	876,019	99.81	1,143,827	132.55

Toilet radar sensors installed in the Kunshan plant in the PRC

During the Reporting Period, we installed 132 sets of toilet infrared human sensors and microwave radar switches in the dormitory and production areas of our Kunshan plant, which automatically turn off water flow when it is not required. The devices have saved the Group a total of RMB 220,000 in annual water charges.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Replacement of mains water pipes and repair of leaks at the Kunshan plant in the PRC

During the Reporting Period, the Kunshan plant identified areas of abnormal water consumption based on analysis of monthly water consumption data, and undertook field inspections to locate leaks in aged water pipes. A total of 210 meters of mains pipes were replaced, and six leaks repaired. This has saved a total of RMB120,000 in annual water charges.

Energy and Greenhouse Gas Emissions Management

The Group's direct energy consumption comes from its use of gasoline, diesel, natural gas and liquefied petroleum gas for production activities and to fuel company-owned vehicles. Our indirect energy consumption comes from externally-purchased electricity used for production and operational processes. During the Reporting Period, we implemented a series of energy conservation projects involving technical enhancements to further improve our energy management.

Phasing out of energy-intensive air compressors

During the Reporting Period, the Kunshan plant replaced four energy-intensive air compressors with two-stage permanent magnet compressors, dramatically reducing energy consumption and saving the Group a total of RMB 540,000.

The greenhouse gases the Group generates mainly come from direct fossil fuel emissions (including gasoline, diesel, natural gas, and liquefied petroleum gas), as well as indirect emissions associated with externally purchased energy. We attach great importance to clean production and to environmental protection, and aim to reduce our greenhouse gas emissions and the environmental impact of our production and operation activities by improving our daily operations and engaging in regular renovations and upgrades.

Diesel forklift replacement project

During the Reporting Period, the Kunshan plant began to gradually replace its diesel forklifts with electric forklifts to reduce greenhouse gas emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Group's energy consumption and the corresponding greenhouse gas emissions were as follows.

Type		Unit	Total mass
Direct energy consumption	Lead-free gas	liter	97,459
	Diesel	liter	375,833
	Natural gas	cubic meter	1,465,197
	Liquefied petroleum gas	liter	12,989
Direct energy consumption in total		**tonnes of standard coal equivalent**	**1,869**
Indirect energy consumption	Externally-purchased electricity	kwh	67,791,638
Indirect energy consumption in total		**tonnes of standard coal equivalent**	**8,332**
Energy consumption in total		**tonnes of standard coal equivalent**	**10,201**

Type	Unit	2019	2018
Direct energy consumption Intensity	tonne of standard coal equivalent per HK$1 million revenue	0.21	0.21
Indirect energy consumption intensity	tonnes of standard coal equivalent per HK$1 million revenue	0.95	1.02
Energy consumption intensity	**tonnes of standard coal equivalent per HK$1 million revenue**	1.16	1.23

Type		Unit	Total mass
Greenhouse gas emissions*	Scope 1	tonnes of CO_2	4,349
	Scope 2	tonnes of CO_2	44,363
	Total	tonnes of CO_2	48,712

* Greenhouse gas emissions (scope 1) mainly represent direct emissions generated by businesses owned or controlled by the Group; greenhouse gas emissions (scope 2) mainly represent indirect emissions from the Group's internal consumption of externally-purchased electricity.

Type	Unit	2019	2018
Greenhouse gas emissions intensity	tonnes of CO2 per HK$1 million revenue	5.55	5.95

Packaging Materials

The packaging materials we use are mainly paperboard and plastics. We are constantly looking for ways of reducing our consumption of packaging materials. During the Reporting Period, we continued phasing in the use of a new type of corrugated paper with fewer layers as product packaging. At the same time, we gradually increased our use of recycled plastic bags, which improved the utilization efficiency rate of our plastic packaging materials.

During the Reporting Period, the quantities of packaging materials used by the Group's production plants in the U.S. and Mexico were as follows:

	2019		2018	
	Total mass (tonnes)	Intensity (tonnes per HK$1 million revenue)	Total mass (tonnes)	Intensity (tonnes per HK$1 million revenue)
Type*	(HK$'000)			
Plastics	8.44	0.005	58	0.03
Paperboard	1,500	0.82	4,054	2.13

* This table only includes the packaging materials used for production in the United States and Mexico. In the PRC, over 10,000 types of packaging materials of different specifications were used at our packaging plants, and their total mass could not be accurately calculated during the year. We are working on enhancing our data calculation in this region, and plan to make further disclosure of data in the future.

ENVIRONMENTAL MANAGEMENT

Through technical renovation and upgrade, we are continuously improving our production processes in ways that are also helping to reduce the environmental impact of our production and operation activities. For example, we have enhanced our pollution controls by upgrading our environmental protection equipment, further reducing our wastewater discharges and greenhouse gas emissions and optimizing our solid waste disposal management. Meanwhile, we are continuing to improve our environmental management policies and procedures in line with the *ISO 14001 Environmental Management System*. Our Ningbo plant in the PRC has obtained ISO 14001 certification.


CQC
环境管理体系认证证书
证书编号：00119E31210R3M/3302
兹证明
宁波好孩子儿童用品有限公司
建立的环境管理体系符合标准：
GB/T 24001-2016 / ISO 14001:2015
通过认证范围如下：
首次发证日期：2010年6月10日 本次发证日期：2019年5月6日 有效期至：2022年5月19日
中国质量认证中心
中国・北京・南四环西路188号9区 100070
http://www.cqc.com.cn
A 0015123
2018年版

ISO 14001 Certificate

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Wastewater Discharge

The wastewater generated by the Group mainly comes from its production plants in the PRC. We treat our production wastewater in strict accordance with relevant laws and regulations and monitor wastewater discharges in real time to ensure that both the total mass and the concentration of the discharges are below the limits specified in the Pollutant Discharge License and local wastewater discharge standards. During the Reporting Period, we used nitrogen-free and phosphorus-free degreasing agents, and replaced phosphorus coating agents with fluorozirconic acid in the pre-treatment coating process to ensure that no agents containing nitrogen or phosphorus were used in the production process. The aim is eventually to achieve “zero nitrogen or phosphorus discharge” in our production wastewater. In addition, we invested an additional RMB550,000 in 2019 for the third-round renovation of our rainwater and sewage pipe network. This involved inspecting the drainage pipe network for damage, blockages and mixing, and repairing damaged areas, to ensure the full separation of rainwater and sewage.

The main pollutants in our wastewater are chemical oxygen demand (COD) and total nitrogen. During the Reporting Period, the wastewater pollutants discharges of the Group’s production plants in China were as follows:

Wastewater pollutants discharge	Unit	2019	2018
Chemical oxygen demand (COD)	tonne	0.468	0.563
Total nitrogen (TN)	tonne	0.201	0.202

Greenhouse Gas Emissions

The major air pollutants generated by the Group are sulfur oxides and total particular matters, emitted by our production plants. During the Reporting Period, we invested RMB2,575,000 in the installation of terminal treatment facilities to more effectively control these emissions.

Side extraction devices added to pre-treatment acid washing process

In 2019, the Kunshan plant renovated its air extraction system. Side extraction devices were installed to assist top extraction devices in the pre-treatment acid washing process to collect the sulfuric acid mist (mainly sulfur oxides) more efficiently, which is then discharged after being neutralized by an alkali spray.

Exhaust collection devices added to plastic injection molding process

In 2019, the Kunshan plant invested RMB 2.33 million to install gas collecting hoods and exhaust ductwork on 190 injection molding machines. These air emissions are then treated with two integrated photo-catalytic activated carbon machines to ensure that the fugitive volatile organic compounds (VOCs) are properly handled before discharge.

Upgrade of air emission treatment devices in bonding process

In 2019, the Kunshan plant upgraded the air emission treatment devices used in the manual bonding process. It added an activated carbon air emission collection device and a 10,000 m^3/h fresh air system to ensure that VOCs are collected and properly treated before discharge.

During the Reporting Period, the air emissions of the Group's production plants were as follows:

Air emission*	Unit	2019	2018
Sulfur oxides	tonne	0.295	0.245
Total Particular Matters	tonne	1.494	–

* 1. In 2019, we have renovated the treatment facilities of air emissions and changed from "fugitive emission" to "collection and treatment", and therefore our emissions have increased.
2. Since the VOC emissions generated by the production process are relatively minor and difficult to measure, no disclosure has been made.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Solid Waste Management

The solid waste generated by the Group mainly comes from general industrial waste generated by our production plants, and domestic waste generated by our central office and sales offices. We are continuously looking at ways of optimizing our waste management process, and we undertake classified storage, handling and disposal of waste based on its properties.

Hazardous Waste

Includes waste activated carbon, waste paint residue, waste oil, etc.

We classify this waste and affix storage labels for clear identification. We then engage qualified third parties for its transfer and disposal in a safe and legal manner in accordance with laws and regulations.

Recyclable Waste

Includes office and domestic waste, etc.

We engage environmental protection authorities or property management companies or other qualified service providers to undertake regular removal.

Unexpected Risks

Includes waste plastics, metal scraps, waste packaging materials, etc.

We recycle such waste materials ourselves, or engage third parties for recycling.

In response to national and local laws and regulations in the PRC as well as new requirements for solid waste management issued by regulatory authorities, we carried out several activities in 2019 to promote domestic waste classification and raise employees' awareness of this issue. During the Reporting Period, the Kunshan plant organized 15 training sessions on garbage classification, with 3,921 employees from 13 departments participating.

Garbage classification Promotion and Training

During the Reporting Period, the solid waste disposed by the Group was as follows:

Waste disposal	2019		2018	
	Total mass (tonnes)	Intensity (tonnes per HK$1 million revenue)	Total mass (tonnes)	Intensity (tonnes per HK$1 million revenue)
Hazardous waste disposed	520	0.06	917	0.11
Non-hazardous waste (office and domestic waste) disposed	2,203	0.25	2,032	0.24

Waste recycling	Category	Unit	2019	2018
Type of recycled non-hazardous waste	Waste plastics	tonne	**611**	**783**
	Metal scraps	tonne	**828**	**1,852**
	Waste packaging materials	tonne	**778**	**1,590**
	Other ancillary waste materials	tonne	**315**	**478**
Total non-hazardous waste recycled		tonne	**2,532**	**4,703**

SUPPLIER MANAGEMENT

The Group is always ready to help its suppliers improve their management abilities and enhance their capabilities in sustainable development and risk tolerance, in order to promote the sound development of the supply chain and ensure responsible supply.

During the Reporting Period, the Group had a total of 750 suppliers.

Region	Number
The PRC	718
Overseas	32

We maintain close relationships with our suppliers. In 2019, we held several technical seminars with them to exchange professional advice and suggestions regarding plastics, metals, fabrics, packaging and other topics, and to collaboratively investigate ways of incorporating more sustainable and environmentally-friendly materials into our products.

Supplier Technical Seminars

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Every year, we review and evaluate our existing and newly-introduced suppliers according to relevant documents such as our *Potential Supplier Investigation Form* and *Supplier Management Control Procedures*. To ensure stable product quality and manage supply chain risks, we regularly evaluate our suppliers and classify them into different grades (S/A/B/C/D or Excellent/Good/Acceptable/Poor) based on monthly and annual assessment results. We have also developed a High-risk Supplier Audit Plan to review or remove suppliers with poor ratings.

Supplier Social Responsibility

The Group strives to promote sustainable development management throughout the supply chain. We have developed a Supplier Social Responsibility Checklist to assess suppliers according to criteria of working environment, occupational health and safety, child labor and forced labor, and environmental management. If non-compliance issues are found in a supplier assessment, we require the supplier to propose a corrective action plan and complete any corrections within a specified period. Meanwhile, the Framework Agreement we sign with suppliers includes environmental provisions which clearly require that the products they supply must comply with environmental, health and safety-related laws and regulations, and that they must implement the rules of the PRC, the EU, and the U.S. as well as relevant local laws and regulations.

DEVELOPING TOGETHER WITH OUR EMPLOYEES

Over the past 30 years, the Group has been committed to developing its human resources. We have striven to create an equal, diversified, open workplace for employees where innovation and self-development are encouraged.

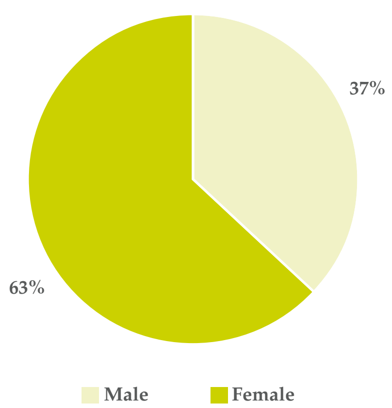
OVERVIEW OF OUR EMPLOYMENT POLICIES

The Group acts in strict accordance with the labor laws and regulations of the jurisdictions within which it operates, including *the Labor Law of the People's Republic of China, the U.S. Fair Labor Standards Act*, and *the German Civil Code*. We operate fair, transparent recruitment and appointment procedures, and do not tolerate child labor. During the Reporting Period, we further optimized our recruitment process, improved pre-employment background checks, and launched a facial-recognition system to help prevent illegal employment practices such as child labor and forced labor.

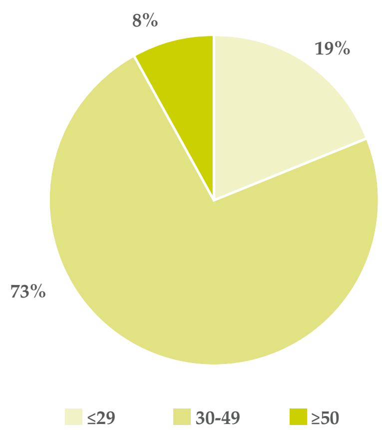
In view of the Group's diversified businesses and significant staffing needs, we have formulated a series of employment regulations that include a *Recruitment Regulation* and an *Internal Recommendation System*. During the Reporting Period we introduced a new employee referral program (self-recommendation) designed to better allocate our employees to the most suitable positions. This applies in all cases except for on-site recruitment, online recruitment, and headhunting. We also increased our referral rewards, further motivating employees to recommend qualified candidates (including themselves) for vacant positions. In addition to maintaining our current fair, just, and open recruitment environment, we have established an internal talent redeployment system.

As of 31 December 2019, our global team consisted of 11,180 employees.

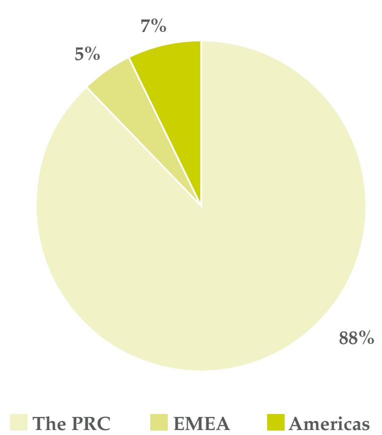
Number of employees by gender



Number of employees by age



Number of employees by region



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To standardize our remuneration management and establish a rational, reasonable and competitive remuneration system, we have developed a document titled *Remuneration and Benefits System*. This document defines pay scales based on job level, market conditions, and the Group's circumstances. Alongside this, our Human Resources Department determines the pay level of new employees in accordance with the appropriate pay scale and a comprehensive review of the employee's background.

We strictly abide by the laws and regulations in all regions to protect the statutory benefits of employees. The Group has always been committed to providing diversified high-quality welfare benefits for employees as part of its efforts to create a better workplace. In addition to ensuring all statutory benefits are provided, we have established a diversified welfare system for employees.

Statutory Welfare

- Five insurance funds and one housing fund
- Official holidays

Medical and Insurance Welfare

- Annual physical examination
- Life insurance and medical insurance

Event Welfare

- Spring Festival
- Women's Day
- Employees' birthdays

Welfare system of the PRC region

TRAINING AND DEVELOPMENT

Employee Training

To ensure the general development of employees and to enable talented individuals to upgrade their professional skills and competencies, we delivered a series of general and professional courses in 2019, involving over 30,000 hours of training.

666 high-quality offline courses

29,197 participants

over 300 online courses

30,726 course hours in total

The Group provides a series of training programs designed to improve the abilities of employees at the levels of knowledge, skills, outcomes, and attitudes. During the Reporting Period, the Group provided five major training programs: the English Training Program, the High-Potential Talents External Training Program, the Project Management Action Program, the Replicable Leadership Program, and the Elite Students Training Program 2019. It also offered a series of New Manager courses.

English Training Program	To help employees improve themselves and to support the Group's international business development, in 2019 we provided English language training for college students recruited from 2015 to 2018 as well as employees for whom English proficiency is a necessity. Students of this program were divided into different classes according to their English proficiency levels. They each took 48 classes (96 periods), twice a week. The program lasted for six months and cost RMB210,000.
Replicable Leadership Program	The Replicable Leadership Program consists of leadership tools, a managerial talent development system, and training on ways of handling employee relationships. The program is provided through online learning, exam evaluation, and lectures. In June 2019, we opened this program to all employees. The program lasted for one month and benefited 200 employees.
High-Potential Talents External Training Program	In September 2019, the Group invested more than RMB210,000 to launch the High-Potential Talents External Training Program, which provides high-quality one-to-one customized training for high-potential talents selected by this Program. The accurate selection and cultivation of high-potential talents involved demand analysis, course selection, pre-training management, training course implementation, follow-up feedback on classroom performance, a student satisfaction survey and feedback, internal training transfer, and performance improvement follow-up.

Elite Students Training Program 2019

Taking into account its existing training channels, the Group also considered the large number, broad distribution, and diverse training needs of its employees, and continued to develop digital training initiatives for them during the Reporting Period. In November 2019 we launched an e-Learning platform called Spark which has been designed to provide employees with an effective learning environment that combines online and offline resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A total of **8,775** learning hours were completed by our employees on the platform

A total of **1,558** knowledge points were accumulated on the platform

According to the 2020 training plan of each unit, we will provide **380** compulsory online courses for targeted office workers of the Group

In addition to general courses, the Group provided a range of courses to help employees enhance specific professional skills.

Training on the Five Core Tools

In June 2019 and December 2019, our China region engaged external lecturers to provide training for employees in the five core tools, namely APQP, PPAP, FMEA, SPC and MSA. To ensure the efficiency and relevance of the training, our Quality Assurance Center assessed employees' proficiency in the five tools before the training in order to adjust the course structure and content in advance.

Quality Inspection Training

During the Reporting Period, our U.S. region organized quality inspection training to improve our employees' product inspection skills. Employees were taught the new classification system for product defects, the usage of calipers and tape measures, the functions testing of finished products, as well as how to read drawings.

Employee Promotion

The Group draws on the EPDD (Employee Performance and Development Dialogue) to evaluate employee performance and competency. This enables it to allocate its human resources optimally, and to assess the value output of employees, their potential, and their compatibility with their positions. The results of the evaluation, presented in a "performance-competence" 9-box grid, help determine whether an employee should be promoted. In 2019, the proportion of promoted office workers versus manual workers increased by 9.7% and 6.8% respectively compared to the previous year.

Employee Development

The Group's talent development system is designed to empower employees and ensure the compatibility of their talents with their employment roles. Within this system, we have initiated multiple programs that are helping outstanding individuals unlock their capabilities and develop their skills. These include the High-Potential Talent Development Program, the Skill Certification Program, and the Employee Higher Education Program.

Vocational Skills Certification Program

The Group launched the Vocational Skills Certification Program in response to government policies to help meet the need for technical talent brought about by the country's socioeconomic development and improve existing single-criterion evaluation systems. In 2019, another two work categories (assembler and sewing workers) were introduced to the program, with three tiers of certification. In total, 46 people were certified as senior assemblers, 154 as intermediate assemblers, and 211 as primary assemblers. In addition, 127 participants were certified as senior sewing workers in two rounds of certification.

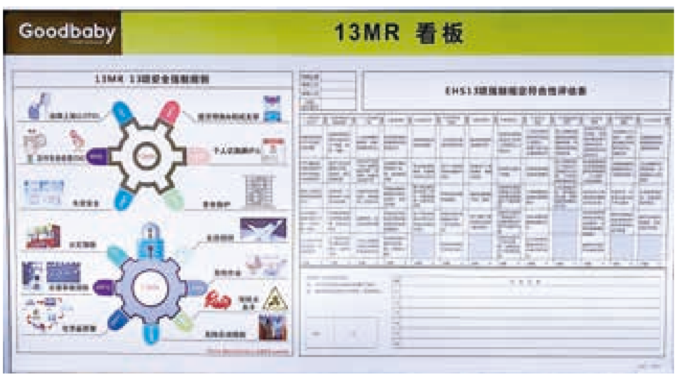
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HEALTH AND SAFETY

We consider corporate safety as the core of our production and prioritize the occupational health and safety of our employees. Throughout our production and operation processes, we adhere to people-oriented principles, striving to create a healthy, safe, pleasant and harmonious work environment for our employees.

The Group strictly complies with all relevant laws, regulations, and standards on occupational health and safety, including the *Work Safety Law of the People's Republic of China*, the *Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases*, the US *Occupational Safety and Health Act*, and the German *Labor Protection Act*. We strive continuously to ensure our performance is in line with the *ISO 45001* and *OHSAS 18001* Occupational Health and Safety Management Systems. During the Reporting Period, we improved our occupational health and safety management systems and revised 30 documents on safety management accordingly, including the documents *Work Safety Responsibility System, Work Safety Target Management System, Management Procedures for the Identification, Evaluation, and Control of Safety Risks, Work Safety Accident and Hidden Danger Detection and Management System*, and *Safety Alarm Management System*. This has led to us further institutionalizing our occupational health and safety management and clarifying the responsibilities associated with different job roles.

The Group has implemented 'Visual Management', whiteboards are set up in our PRC plants to display regulations on work safety and occupational health management systems, 13MR (compulsory safety rules), risk notifications, safety signs, requirements for the wearing of protective equipment, and training contents.



Safety boards around our factories

During the Reporting Period, we revised our Safety Alert Management System and standardized our accident handling process. This involved giving accident alerts, requiring the units where the accidents occurred to conduct "5WHY" analysis, and identifying the causes, processes, and pattern of accidents on the basis of accident analysis to develop effective preventive measures. At the same time, management were given unbiased and accurate evaluations of work safety performance via a standardized accident management process. We also provided safety training for employees to help them develop higher levels of safety awareness, and organized a specialized EHS competence test. All this enabled us to predict, control, and prevent accidents more effectively. During the Reporting Period, there were no work-related deaths at the Group.

Goodbaby 2019 EHS Specialized Competence Test

Machine Safeguarding

During the Reporting Period, we made major improvements to the punching, bending, and sawing equipments at our Kunshan base in China. Up to the end of 2019, we had improved 117 punches, 23 bending machines, and 10 sawing machines, equipping them with two-sided buttons, gratings, flywheel protection nets, and emergency buttons. As a result, the safeguarding coverage of our equipment reached 100%.

We have established emergency response modes and emergency response plans at three levels: company level, plant level, and workshop level. The responsibilities, classifications, and response modes of the three levels are all carefully defined, with each response mode triggering a different reaction in the event of an emergency. We require each production plant to conduct emergency drills based on actual circumstances so that flaws can be spotted in the emergency response plans, and improvements could be implemented.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Heatstroke rescue drill

Hazardous waste leakage drill

CARING FOR OUR EMPLOYEES

Diversified Communication Channels

We work to maintain efficient employee communication mechanisms that allow us to communicate more effectively with our employees, understand their genuine needs, and strengthen our mutual collaboration. In the Reporting Period, we took steps to open new employee communication channel, and organized a series of employee communication activities.

Survey on Employee Training Needs

To understand the specific training needs of employees, we conduct a survey at the end of each year. By obtaining employees' opinions and suggestions on training goals, training plans, and training implementation, we can develop a better training plan for the next year and improve the accuracy, timeliness and effectiveness of our training sessions.

Rationalization Proposal Channel

Rationalization proposals help us tap internal potential, enhance employee participation in corporate management, and improve employees' motivation and innovative thinking.

During the Reporting Period, 5,781 proposals were given by our employees. We adopted 5,533 proposals and implemented 4,090 of them.

Employee Satisfaction Survey

Our employee satisfaction survey enables us to review our policies and take corrective measures where necessary. It helps us to identify the causes of major existing problems, evaluate the impact of organizational changes and corporate policies on our employees, and facilitate communication and exchanges between management and employees.

Caring for our Employees

The Group cares for each employee and is committed to creating a harmonious, warm and supportive workplace. The Human Resources team of China has established a Care for Employees Project, including a planning team, an audit team, and a reflection and improvement team. We have also developed an employee care mode with four drivers: action, benefits, system and management, with the aim of enhancing the happiness, satisfaction, and loyalty of our employees. We are also extending our support to our employees' families. During the Reporting Period, the Human Resources team of China, in collaboration with local governments, women's federations and labor unions, organized a number of events and activities for the families of our employees, including parent-child sessions and childcare help. Our Americas Region also extended employee care programs to their families through soliciting donations and holding holiday parties for their education and life quality development.

Caring for Employees' Children

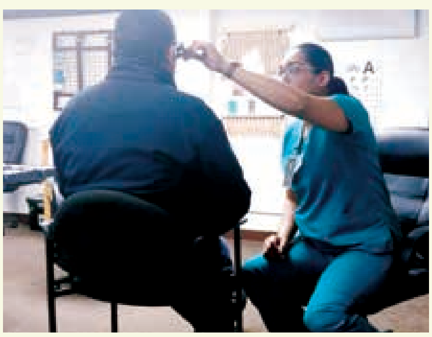
During the Reporting Period, the Labor Union of our China plants and the Lujia County Women's Federation jointly organized the Lujia County Parents' School, attracting over 30 employees. The event was well received by parents. In addition, we arranged for over 50 employees and their children to participate in an online parent-child reading event. These events provided platforms for our employees to spend quality time with their children.

During the Reporting Period, our Americas region supported the children of employees facing financial challenges through the purchase of school supplies for them from their school supplies lists. The Human Resources Department of our Americas region approached local governments to apply for relevant programs, as well as purchasing shoes for the children on behalf of the Group.

Care for Employees

Visual Health Program

To improve the visual health of our workers and minimize occupational health risks caused by poor vision, our Americas region arranged an eye health check and diagnosis for all employees to help them better protect their visual health.



Breast cancer and cervical cancer detection

To support our female employees, especially those with a history of cancer, our Americas region arranged undergo examinations for female employees to to help in the detection and prevention of cervical cancer and breast cancer.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A More Colorful Life

During the Reporting Period, we organized a number of events and activities for our employees worldwide to help them achieve a better work-life balance and enrich their spare time.

Table Tennis Competition

Chinese Chess Competition

2019 Annual Party

Monster Fish Challenge

Events and activities in the PRC Region

In 2019, our EMEA region funded over 50 employees from 19 different countries to participate in Maisel's Fun Run in Bayreuth, Germany. The race distances were 5km, 10km, and half-marathon.

Our EMEA region jointly organized a basketball team with two other Bayreuth-based companies. Each week, the team invites employees who love basketball to join it in and play a game.

Events and activities in the EMEA Region

Our Americas region organizes festive celebrations for employees on every traditional festival, such as a Halloween Costume Contest. On Thanksgiving, each employee received either a turkey or a Kroger gift card worth US25.

During the Reporting Period, our Americas region held a number of employee reward events, such as a full attendance lunch party, good deeds week, and an employee appreciation day.

Events and activities in the Americas Region

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNITY ENGAGEMENT

The Group is committed to fulfilling its corporate social responsibilities, and to empowering our employees to get involved in civic and charitable activities and give back to the communities in which we operate. We cooperate with government, media, hospitals, charitable organizations, and others to actively participate in community welfare activities, and have organized several activities for charitable donations, environmental protection, and volunteering. We also exert our influence to help meet the specific needs of women and children in our communities.

1,308 hours devoted to charitable activities

Contributed HKD1,202,969 to charity and volunteer organizations

During the Reporting Period, the Group has contributed 1,308 hours to charitable activities and HKD1,202,969 of money and goods to charity and volunteer organizations.

Charitable Donations

We are committed to assisting people who take care of children around the world, helping them address the difficulties and problems they face and improving their sense of happiness and security. We have actively organized many charitable activities around the world to raise funds, give back to society, and contribute to a better future for all.

FUNDRAISING

Employees at the U.S. plant regularly volunteer to help those in need, and have held several fundraising events. In cooperation with the local business council, we successfully organized a Cancer Fundraiser event, with the funds raised earmarked for cancer treatments.

TOY DONATION

Employees at the U.S. plant donated a wide variety of toys to Dayton Children's Hospital, bringing fun times to children in the hospital.

BLOOD DONATION

The U.S. plant held an End of Summer Splash event, where employees had the opportunity to donate blood to the community blood bank.

Employees at the U.S. plant organized a car seat giveaway event in collaboration with Seeds of Hope and the Shelby County Health Department. Free car seat checks were also offered for residents to raise awareness of child safety. EMEA employees distributed 35 car seats, 24 strollers, and 3 carry cots from the Bayreuth, Germany showroom to local families in need.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Volunteering

We aspire to make the world a better place for families. To this end, we have established a solid volunteering services platform for employees, and encourage all our employees to engage in voluntary work when they can.

The China plants organized a free Rollplay Electric Vehicle Experience Station, offering children opportunities to drive electric vehicles.

We organized employees to serve as volunteers for the Kunshan Marathon, where they provided water, refreshments and much-needed encouragement to participants in the run.

The U.S. plant organized a Manufacturing Day, when local students could visit the facility. Participants were shown round and got an in-depth opportunity to learn about manufacturing and the child products industry.

APPENDIX I. HKEX ESG REPORTING GUIDE CONTENT INDEX

ESG Subject Areas, Aspects, General Disclosures and KPIs		Chapter/ Section
Environmental		
A1: Emissions		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Environmental Protection for the Long Term
A1.1	The types of emissions and respective emissions data	Environmental Management
A1.2	Greenhouse gas emissions in total and intensity	Conserving Resources
A1.3	Total hazardous waste produced and intensity	Environmental Management
A1.4	Total non-hazardous waste produced and intensity	Environmental Management
A1.5	Description of measures to mitigate emissions and results achieved	Environmental Management
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Environmental Management
A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Conserving Resources
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and intensity	Conserving Resources
A2.2	Water consumption in total and intensity	Conserving Resources
A2.3	Description of energy use efficiency initiatives and results achieved	Conserving Resources
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Conserving Resources The Group has no difficulties in sourcing water that is fit for purpose.
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Conserving Resources
A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Environmental Management
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Environmental Management
Social		
B1: Employment		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Overview of our Employment Policies
B1.1	Total workforce by gender, employment type, age group and geographical region	Overview of our Employment Policies
B1.2	Employee turnover rate by gender, age group and geographical region	
B2: Health and Safety		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Health and Safety
B2.1	Number and rate of work-related fatalities	Health and Safety
B2.2	Lost days due to work injury	
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Health and Safety

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG Subject Areas, Aspects, General Disclosures and KPIs		Chapter/ Section
B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Training and Development
B3.1	The percentage of employees trained by gender and employee category	
B3.2	The average training hours completed per employee by gender and employee category	
B4: Labor Standards		
General disclosure	Information on: (a) policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor	Overview of our Employment Policies
B4.1	Description of measures to review employment practices to avoid child and forced labor	Overview of our Employment Policies
B4.2	Description of steps taken to eliminate such practices when discovered	Overview of our Employment Policies
B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supplier Management
B5.1	Number of suppliers by geographical region	Supplier Management
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supplier Management
B6: Product Responsibility		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Quality and Safety
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Quality and Safety
B6.2	Number of products and service related complaints received and how they are dealt with	High-Quality Services
B6.3	Description of practices relating to observing and protecting intellectual property rights	Innovation in R&D
B6.4	Description of quality assurance process and recall procedures	Quality and Safety
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	High-Quality Services
B7: Anti-corruption		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Integrity in our Operations
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Integrity in our Operations
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Integrity in our Operations
B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Community Engagement
B8.1	Focus areas of contribution	Community Engagement
B8.2	Resources contributed to the focus area	Community Engagement

APPENDIX II. LIST OF APPLICABLE POLICIES AND LAWS AND REGULATIONS

In accordance with the "Policies" and "Compliance with relevant laws and regulations that have a significant impact on the issuer" provisions set out in the "General Disclosure", this section mainly gives a summary and list of the internal policies, external laws and regulation disclosed in the report based on their order of reference.

List of Internal Policies

Risk Management and Internal Control Guidelines
Internal Audit Guidelines
Anti-Corruption Policy
Whistleblowing Policy
Management Procedures for Customer Service Communication
Management Procedures of Fault Reporting by Users
Information Security Policy
Environmental Management Manual
Environmental Management Accountability System
Management System for Rainwater Sewage Network
Wastewater Management Rules
Air Emissions Management Rules
Waste Management Rules
Management System for Waste Materials Treatment
Management System for Collection and Storage of Hazardous Waste
Hazardous Waste Disposal Procedure
Environmental Hygiene Greening Management Rules
Supplier Guidelines
Supplier Management Control Procedures
Recruitment Regulation
Internal Recommendation System
Employee Handbook
Remuneration and Benefits System
Measures for the Management of Outgoing Employees
Measures for External Training
Rules on the Management of Online Learning Platforms
Nurturing System for College Students
Dangerous Operation Management System
Management System for Related Parties
Transportation and Handling Safety Management System
Product Safety Management Policy
Work Safety Responsibility System
Work Safety Target Management System
Management Procedures for the Identification, Evaluation, and Control of Safety Risks
Work Safety Accident and Hidden Danger Detection and Management System
Safety Alarm Management System.

Laws and Regulations

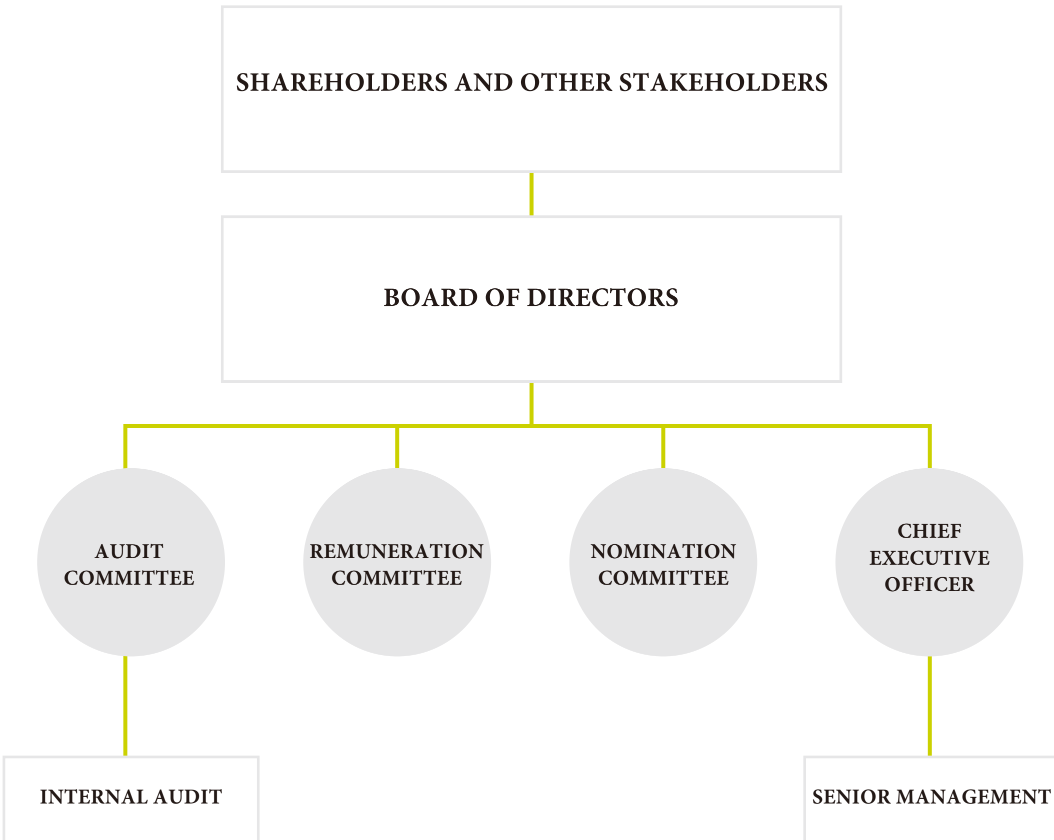
Company Law of the People's Republic of China
Patent Law of the People's Republic of China
U.S. Patent Reform Act
Law of the People's Republic of China on the Protection of Consumer Rights and Interests
Cyber Security Law of the People's Republic of China
European Union General Data Protection Regulation
Law of the People's Republic of China on Environmental Protection
Law of the People's Republic of China on Prevention and Control of Water Pollution
Law of the People's Republic of China on Prevention and Control of Air Pollution
U.S. Federal Hazardous Substances Act
U.S. Clean Air Act
European Union Waste Framework Directive
Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes
Energy Conservation Law of the People's Republic of China
Water Law of the People's Republic of China
Administrative Measures for Industrial Water Conservation
Opinions on Strengthening Industrial Water Conservation
U.S. Clean Water Act
U.S. Energy Independence and Security Act of 2007
U.S. Energy Policy Act of 2005
Management Rules for Recycling and Disposal of Waste Electrical and Electronic Products
Labor Law of the People's Republic of China
U.S. Fair Labor Standards Act
German Civil Code
Work Safety Law of the People's Republic of China
Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases
U.S. Occupational Safety and Health Act
German Labor Protection Act

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The board (the "Board") of directors (the "Directors") is pleased to present this corporate governance report in the annual report for the year ended 31 December 2019. The manner in which the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") are applied and implemented, as explained in the following sections of this corporate governance report:

CORPORATE GOVERNANCE STRUCTURE AND PRACTICES



CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards. It believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and formulate its business strategies and policies as well as to enhance corporate value and accountability.

The Board is of the view that throughout the year ended 31 December 2019, the Company has complied with all the code provisions set out in the CG Code.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

LEADERSHIP

The Board oversees the Company's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

BOARD COMPOSITION

The Board currently comprises eleven Directors, consisting of five executive Directors, two non-executive Directors and four independent non-executive Directors, as follows:

Executive Directors

Mr. SONG Zhenghuan *(chairman)*
Mr. Martin POS *(CEO)*
Mr. XIA Xinyue
Mr. LIU Tongyou
Mr. Michael Nan QU

Non-executive Directors

Ms. FU Jingqiu
Mr. HO Kwok Yin, Eric

Independent non-executive Directors

Mr. Iain Ferguson BRUCE *(chairman of audit, nomination and remuneration committees)*
Mr. SHI Xiaoguang *(member of audit, nomination and remuneration committees)*
Ms. CHIANG Yun *(member of audit, nomination and remuneration committees)*
Mr. JIN Peng

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 24 to 33 of this annual report.

None of the members of the Board is related to one another, save and except that Ms. FU Jingqiu, non-executive Director, is the spouse of Mr. SONG Zhenghuan, the chairman and executive Director of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman and CEO are held by Mr. SONG Zhenghuan and Mr. Martin POS respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The CEO focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. Notwithstanding the fact that Mr. Iain Ferguson BRUCE and Mr. SHI Xiaoguang have been serving on the Board for more than nine years, the Company considers that both of them can exercise independent judgments and have the required character, integrity and experience to continue fulfilling the role of independent non-executive Directors taking into consideration of their valuable contributions, impartiality and independent judgements manifested at meetings of the Board and various board committees in the past. At the annual general meeting held on 27 May 2019, separate resolutions with respect to their re-appointment were approved by the shareholders of the Company. The Company considers all independent non-executive Directors are independent.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2019. The Company has also established a code of conduct no less exacting than the Model Code (the "Employees Code of Conduct") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Code of Conduct by the employees was noted by the Company.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors take decisions objectively in the interests of the Company. The Board has delegated to the CEO, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established board committees and has delegated to these board committees various responsibilities as set out in their respective terms of reference.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice of the Company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors have disclosed to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company. The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors keep abreast of regulatory developments and changes in order to effectively perform their duties and to ensure that their contribution to the Board remains relevant. Every newly appointed Director will receive a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internal briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses. During the year ended 31 December 2019, all Directors have provided the Company with a record of the training they received on a half yearly basis, and such records were maintained by the Company. The training record of each Director during the year ended 31 December 2019 is set out in the table below:

Name of Directors	Hours of Training in 2019
SONG Zhenghuan	5
Martin POS	5
XIA Xinyue	5
LIU Tongyou	5
Michael Nan QU	5
FU Jingqiu	5
HO Kwok Yin, Eric	5
Iain Ferguson BRUCE	30
SHI Xiaoguang	5
CHIANG Yun	60
JIN Peng	5

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointed for a specific term of three years unless terminated by not less than three months' notice in writing served by either the executive Director or the Company. The non-executive Directors and each of the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years.

The appointment of all Directors are subject to the provisions of retirement and rotation of Directors under the Company's articles of association. In accordance with the Company's articles of association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. Any new Director appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following general meeting.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors of the Company for the year ended 31 December 2019 are set out in note 9 to the financial statements.

COMPANY SECRETARY

Ms. HO Siu Pik has been appointed as the Company's company secretary. Ms. HO Siu Pik is an Executive Director of Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

Ms. Ho's biography is set out in the section headed "Directors and Senior Management" on page 33 of this annual report. For the year ended 31 December 2019, the company secretary has undertaken not less than 15 hours of the relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Ms. WANG Qi, Group Legal & Compliance Vice President of the Company has been designated as the primary contact person at the Company which would work and communicate with the company secretary on the Company's corporate governance and secretarial and administrative matters.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specified written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. All members of each Board committee are independent non-executive Directors. A list of the chairman and members of each Board committee is set out under "Corporate Information" on pages 3 to 5 of this annual report.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, namely Mr. Iain Ferguson BRUCE, Mr. SHI Xiaoguang and Ms. CHIANG Yun. Mr. Iain Ferguson BRUCE is the chairman of the Audit Committee.

CORPORATE GOVERNANCE REPORT

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

With effect from 1 January 2019, amendment to code provision C. 3.2 of the CG Code in respect of the extension of cooling period for appointment of a former partner of an issuer's current audit firm as the issuer's audit committee member from one year to two years has been put in place. In light of this recent amendment, the terms of reference of the Audit Committee has been revised accordingly to reflect such a change, and adopted by the Board on 14 December 2018 with an effort to keep abreast of the latest development of the CG Code.

The Audit Committee held two meetings on 25 March 2019 and 25 August 2019 respectively, to review the annual financial results and report for the year ended 31 December 2018, and interim financial results and report for the six months ended 30 June 2019 as well as significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems, appointment of external auditors, continuing connected transactions and arrangements for employees to raise concerns about possible improprieties. During the year ended 31 December 2019, the Audit Committee also met the external auditors twice without the presence of the executive Directors.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three independent non-executive Directors, namely Mr. Iain Ferguson BRUCE, Mr. SHI Xiaoguang and Ms. CHIANG Yun. Mr. Iain Ferguson BRUCE is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include determining/reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held a meeting on 25 March 2019 to review and make recommendation to the Board on the remuneration policy and the remuneration packages of executive Directors and senior management for 2019 as well as other related matters. The Remuneration Committee also made recommendations to the Board on the terms of service agreement.

NOMINATION COMMITTEE

The Nomination Committee consists of three independent non-executive Directors, namely Mr. Iain Ferguson BRUCE, Mr. SHI Xiaoguang and Ms. CHIANG Yun. Mr. Iain Ferguson BRUCE is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors. External recruitment professionals might be engaged to carry out recruitment and selection process when necessary.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

The Nomination Committee held a meeting on 25 March 2019 to review the structure, size and composition of the Board, the independence of the independent non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the annual general meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

DIRECTOR NOMINATION POLICY

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a director nomination policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level, via written resolutions passed by the Directors on 14 December 2018.

The Company shall appoint independent non-executive Directors representing at least one-third of the Board. The Nomination Committee should assess the independence of the independent non-executive Directors in taking into account the factors set out on Rule 3.13 of the Listing Rules. The Nomination Committee will conduct regular review on the structure, size and composition of the Board and this Policy and where appropriate, make recommendations on change to the Board to complement the Company's corporate strategy and business needs.

The Nomination Committee would consider the character and integrity, potential contributions in terms of qualifications, skills, experience, independence and diversity, and other perspectives that are appropriate to the Company's business and succession as the criteria for selecting candidate for directorship.

For appointment of new director, the Nomination Committee should evaluate the candidates based on the criteria as set out in the nomination policy, rank them by order of preference based in the needs of the Company and recommend the appropriate candidate to the Board for appointment. For any person that is nominated by a shareholder for election at the general meeting, the Nomination Committee should also evaluate the candidates based on the criteria and make recommendation to shareholders in respect of the proposed election of director at the general meeting.

For re-election of director at general meeting, the Nomination Committee should review the overall contribution and services to the Company of the retiring director and the level of participation and performance on the Board and whether the retiring director continues to meet the criteria as set out in the nomination policy. The Nomination Committee should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting. Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate should be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or application laws and regulations.

BOARD DIVERSITY POLICY

The Company amended the board diversity policy, which were adopted on 23 August 2013, setting out the approach to achieve diversity of the Board via written resolutions passed by the Directors on 14 December 2018. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintain the Company's competitive advantage and corporate governance.

The Nomination Committee has primary responsibility for identifying individuals suitably qualified to become members of the Board and selecting, or making recommendations to the Board on the selection of, individuals nominated for directorships. The Nomination Committee will discuss and agree on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. In assessing potential candidates for the Board, the Nomination Committee will consider the diversity perspectives, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Company aims to maintain an appropriate balance of diversity perspective of the Board that are relevant to the Company's business growth. All Board appointments will be based on the above range of diversity perspectives with reference to the Company's business model and specific needs.

The Nomination Committee will review the board diversity policy as appropriate and recommend revisions, if any, to the Board for consideration and approval.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Functions of the Board adopted by the Company including:

- to develop and review the Company's policies, procedures and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review the effectiveness of the risk management and internal control system on an ongoing basis and to remedy material internal control weaknesses;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

CORPORATE GOVERNANCE REPORT

- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- to review the adequacy of resources, staff competency, training programs and budget of the Company's accounting, internal audit and financial reporting functions; and
- to review the Company's compliance with CG Code and disclosure in the corporate governance report in the annual report of the Company.

The Board may delegate the corporate governance duties to a committee of the Board.

The Board's annual review of the Company's corporate governance practices for the year ended 31 December 2019 has covered the aforesaid matters.

BOARD MEETINGS

BOARD PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

Where necessary, the senior management attend regular Board meetings and other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2019 is set out in the table below:

	Attendance/Number of Meetings in 2019				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meetings**
SONG Zhenghuan	4/4	N/A	N/A	N/A	1/1
Martin POS	3/4	N/A	N/A	N/A	0/1
XIA Xinyue	4/4	N/A	N/A	N/A	0/1
LIU Tongyou	4/4	N/A	N/A	N/A	1/1
Michael Nan QU	4/4	N/A	N/A	N/A	0/1
FU Jingqiu	4/4	N/A	N/A	N/A	1/1
HO Kwok Yin, Eric	3/4	N/A	N/A	N/A	1/1
Iain Ferguson BRUCE	3/4	2/2	1/1	1/1	1/1
SHI Xiaoguang	4/4	2/2	1/1	1/1	1/1
CHIANG Yun	4/4	2/2	1/1	1/1	1/1
JIN Peng	3/4	N/A	N/A	N/A	0/1

Apart from regular Board meetings, the chairman also held a meeting solely with the independent non-executive Directors on 25 March 2019.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 118 to 122.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee reviews and monitors the scope, issues, results and action plans in relation to or arising from the internal and external audits. The Audit Committee also assists the Board in fulfilling its oversight and corporate governance roles in the Group's risk management and internal controls, and the resources of the finance and internal audit functions.

The key elements of the Company's risk management and internal control systems include the following areas:

- A closed loop risk management framework that monitors and assesses risks, internal control operating environment and the execution and results of corrective actions to address on the identified risks and control deficiencies;
- An organizational structure with clearly defined and distinct lines of authority and control responsibilities;
- Approval from executive director/responsible senior executive prior to commitment on all material matters;
- A robust financial and management accounting system to provide for performance measurement indicators and to ensure compliance with relevant rules;
- Annual plans prepared by senior management on financial reporting, operations and compliance with consideration of potential opportunities and risks;
- Strict prohibition on the release of confidential information;
- Appropriate policy to ensure the adequacy of resources, qualifications and experience of staff of the Company's accounting, financial reporting and internal audit functions, and their training programs and budget;
- On an ongoing basis, review and evaluation of the adequacy and effectiveness of risk management and internal control systems and hence any enhancement implementation as appropriate.

The Company has taken the following measures in 2019 to further strengthen the risk management and internal control systems and the related accountability of the management team:

(1) Control Self-Assessment (CSA) – CSA is a regular, systematic and standardized approach to facilitate self-review and self-audit of the adequacy and effectiveness of internal controls across the Company at the process, business unit and corporate levels. Internal control department developed and continuously enhances the self-assessment questionnaire to identify and evaluate key control requirements based on the principles of the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Business/process owners are required to carry out self-assessment and report on the internal control status of their responsible business unit under the guidance of internal control department. Corrective action plans are required to be reported by business/process owners and are monitored by internal control department for the identified control deficiencies. CEO and CFO of the Company review the submitted self-assessment results and the corrective action plans, assess the internal control status and confirm on the overall adequacy and effectiveness of the internal control system in place.

CORPORATE GOVERNANCE REPORT

(2) Annual Risk Assessment (ARA) – ARA is a comprehensive risk analysis based on inputs from corporate executives and senior management of business units and core supporting functions to identify the strategic, operational, compliance and financial risk factors. Through the ARA process, major risks that may impede the business from achieving its objectives are assessed, year-over-year trend analyzed, root causes are scrutinized, and adequate response are developed. The high risk internal control areas identified out of the analysis are subject to be audited by internal audit function.

During 2019, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Company's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, financial reporting and internal audit functions.

In addition to the review of risk management and internal controls undertaken within the Company, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

The Company has established a set of Corporate Governance policies to ensure compliance with the various rules and obligations imposed on it as a company listed on the Stock Exchange, and to improve the effectiveness of its risk management and internal control systems. Among the mentioned policies, the key policies are illustrated as the following.

INTERNAL AUDIT FUNCTION

The Company has a professional and independent internal audit department reporting directly to the Audit Committee. Audit Committee reviews internal audit's periodic risk assessment report and approves annual audit plan and the related resource requirements. Internal control deficiencies identified by internal audit and corrective action progress update are communicated in a timely manner to management and Audit Committee. Audit Committee has evaluated the performance of internal audit function in year 2019 and was satisfied with the effectiveness of the function.

CODE OF BUSINESS CONDUCT

All staff of the Company are subject to the Code of Business Conduct. It provides guidance on matters relating to legal compliance, conflict of interest, confidential information, fair competition, business opportunities, career opportunities, as well as environment, health and safety. The code promulgates ethical values in business activities and requires employees to adhere to it when discharging their delegated duties.

WHISTLE-BLOWING POLICY

The Audit Committee oversees execution of the whistle-blowing policy. The Company expects and encourages its employees, customers, suppliers and other stakeholders who have concerns about any suspected misconduct or malpractice within the Company to report on these concerns which could facilitate risk monitoring, fraud alert and continuous improvement in internal controls. Internal audit has formulated standard procedures to handle whistle-blowing matters, including protection of whistle-blower and evidence, investigation procedures and communication protocol. Whistle-blowing reports are recorded in details and with confidentiality. Whistle-blowing cases, investigation results, actions taken and proposed internal control improvements are reported to the Audit Committee.

DISCLOSURE POLICY

The Company has developed its disclosure policy which provides a general guide to the Company's directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Connected Transaction Policy is established to provide consistent group-wide rules on the identification, assessment and approval and disclosure of connected transactions, in compliance with the rules defined in Chapter 14A of the Listing Rules.

EXTERNAL AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2019 amounted to HK$9,788,000 and HK$574,800 respectively. An analysis of the remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2019 is set out below:

Service Category	Fees Paid/ Payable
Audit Services	9,788,000
Non-audit Services	574,800
• Transferring pricing filing	250,000
• Others	324,800

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/ INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board, non-executive Directors, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meeting to meet shareholders and answer their enquiries.

The 2020 annual general meeting ("AGM") of the Company will be held on 25 May 2020. The notice of AGM was sent to the shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.gbinternational.com.hk, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

During the year under review, the Company has not made any changes to its articles of association. An up-to-date version of the Company's articles of association is also available on the Company's website and the Stock Exchange's website.

The Board has adopted a shareholders' communication policy made reference to code provision E.1.4 of the CG Code as contained in Appendix 14 of the Listing Rules at a board meeting held on 16 March 2014.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Director. Except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Procedures for Shareholders to Convene an EGM (Including Making Proposal(s)/Moving Resolution(s) at the EGM)

Any 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 carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board of the Company or the company secretary of the Company (the "Company Secretary"), to require an extraordinary general meeting (the "EGM") to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

CORPORATE GOVERNANCE REPORT

Eligible Shareholders who wish to convene an EGM for the purpose of making proposal(s) or moving resolution(s) at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned at the principal place of business of the Company in Hong Kong at Room 2502, 25/F., Tung Chiu Commercial Centre, 193 Lockhart Road, Wanchai, Hong Kong, for the attention of the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM, signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity(ies) and the shareholding(s) of the Eligible Shareholder(s) will be verified with the Company's branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the Board will be asked to convene an EGM within 2 months and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal(s) or the resolution(s) proposed by the Eligible Shareholder(s) at the EGM.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the Eligible Shareholder(s) concerned at an EGM varies according to the nature of the proposal, as follows:

- at least twenty-one (21) clear days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and
- at least fourteen (14) clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

Procedures for Shareholders to Propose a Person for Election as a Director

Shareholders may propose a person for election as Director, the procedures for which are available on the Company's website in the section of "Corporate Governance" under the column of "Investor Relations".

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send their enquiries and concerns to the Board by addressing them to the Head of Legal and Compliance Department to the Company's principal place of business in Hong Kong at Room 2502, 25/F., Tung Chiu Commercial Centre, 193 Lockhart Road, Wanchai, Hong Kong by post, or by email to enq_to_board@goodbabyint.com.

For the avoidance of doubt, shareholder(s) must deposit/send the original duly signed written enquiries or concerns (as the case may be) to the Company's aforesaid address and provide his/her/their full name(s) and contact details in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Note: The Company will not normally deal with verbal or anonymous enquiries.

DIVIDEND POLICY

The Board has established a dividend policy setting out the principles and guidelines that the Company will apply when considering the declaration and payment of dividends to the shareholders of the Company via written resolutions of the Directors passed on 14 December 2018. The Company is subject to the articles of association of the Company and all applicable laws (including the Cayman Companies Law), rules and regulations, during declaration and payment of dividends to shareholders of the Company.

According to the Board's dividend policy, the Company may, subject to the Cayman Companies Law, from time to time in general meeting declare dividend in any currency to be paid to the shareholders of the Company but no dividend shall be declared in excess of the amount recommended by the Board.

The Board has the discretion to declare dividends to the shareholders of the Company, subject to the Company's articles of association and all applicable laws and regulations and taking into consideration factors set out below:

(1) financial results;

(2) cash flow situation;

(3) business conditions and strategies;

(4) future operations and earnings;

(5) capital requirements and expenditure plans;

(6) interests of shareholders;

(7) taxation consideration;

(8) any contractual, statutory and regulatory restrictions on payment of dividends; and

(9) any other factors that the Board may consider relevant.

REPORT OF THE BOARD OF DIRECTORS

REPORT OF THE BOARD OF DIRECTORS

The Board is pleased to present their report and the audited financial statements for the year ended 31 December 2019 of the Group.

The Company is an investment holding company, and its subsidiaries are principally engaged in the design, research and development, manufacture, marketing and sales of children's car safety seats, strollers, apparels and home textile products, feeding, nursing and personal care products, cribs, bicycles and tricycles and other children products. The analysis of the revenue of the Group for the year is set out in note 5 to the Financial Statements.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2019 are provided in the section headed "Chairman's Statement" and the section headed "Management Discussion and Analysis" in this annual report. An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" on page 101 of this annual report.

An analysis of the Group's performance during the year ended 31 December 2019 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" in this annual report.

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company are provided in the paragraph headed "Environmental, Social and Governance" on pages 34 to 83 of this annual report.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income on page 123 and page 124 respectively. The financial position as at 31 December 2019 of the Group are set out in the Consolidated Statement of Financial Position on pages 125 to 126. The cash flow of the Group during the year is set out in the Consolidated Statement of Cash Flows on pages 128 to 129.

SHARE CAPITAL

The changes in share capital of the Group during the year are set out in note 31 to the Financial Statements.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

CLOSURE OF REGISTER OF MEMBERS

For the purposes of ascertaining the members' eligibility to attend and vote at the annual general meeting, the Company's register of members will be closed during the following periods respectively:

For ascertaining eligibility to attend and vote at the annual general meeting:

- Latest time to lodge transfers documents for registration 4:30 p.m. on 19 May 2020 (Tuesday)

- Closure of register of members 20 May 2020 (Wednesday) to 25 May 2020 (Monday), both days inclusive

To be eligible to attend and vote at the annual general meeting, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than the respective latest time as stated above.

RESERVE

Details of the changes in reserves of the Group during the year are set out in note 33 to the Financial Statements.

As at 31 December 2019, the reserves of the Company available for distribution to shareholders was approximately HK$3,320.4 million.

PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the year are set out in note 14 to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's five largest suppliers combined was approximately 8.3% of the Group's total purchase. The percentages of sales for the year attributable to the Group's major customers are as follows:

– the largest customer 9.8%

– five largest customers in aggregate 29.3%

Save as disclosed herein, as far as the Company is aware, none of the Directors nor his/her connected persons and none of the shareholders possessing over 5% of the interest in the capital of the Company possessed any interest in the above – mentioned suppliers and customers.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable assets. The Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

REPORT OF THE BOARD OF DIRECTORS

The Group's business is built on a customer – oriented culture, and are focused on establishing relationships with retailers, brand owners and distributors globally. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long–term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers. During the year under review, there was no material and significant legal dispute between the Group and its suppliers and/or customers.

DONATION

During the year under review, the charitable contributions and other donations amounted to HK$423,096.

DIRECTORS

The Directors in office during the year and as at the date of this report were as follows:

Executive Directors

SONG Zhenghuan
Martin POS
XIA Xinyue
LIU Tongyou
Michael Nan QU

Non-executive Directors

FU Jingqiu
HO Kwok Yin, Eric

Independent Non-executive Directors

Iain Ferguson BRUCE
SHI Xiaoguang
CHIANG Yun
JIN Peng

Further details of the Directors and senior management are set forth in the section "Directors and Senior Management" of this annual report.

In accordance with the articles of association of the Company, and based on Listing Rules Mr. Martin POS, Mr. LIU Tongyou, Ms. CHIANG Yun and Mr. JIN Peng will retire in the forthcoming annual general meeting, and being eligible, have offered themselves to be re-elected and re-appointed at the forthcoming annual general meeting.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract/signed an appointment letter with the Company and is appointed for a specific term of three years unless terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years with effect from the respective date stated therein.

There was no service contract entered into/appointment letter signed by the Company and any Directors to be re-elected in the forthcoming annual general meeting which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Other than those transactions disclosed in note 37 to the Financial Statements and in the section "Connected Transactions" below, there was no other contracts of significance with any member of the Group as the contracting party and in which the Directors possessed direct or indirect substantial interests, and which was still valid on the year end date or any time during the year and related to the business of the Group.

DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

For the year ended 31 December 2019, the Company has received an annual written confirmation from each of Mr. SONG Zhenghuan and Ms. FU Jingqiu in respect of their and their close associates' compliance with the deed of non-competition dated 23 October 2017 (which replaces the deed of non-competition dated 9 November 2010 as disclosed in the Company's prospectus for global offering dated 11 November 2010). Further details of the deed of non-competition are set out in the circular of the Company dated 4 September 2017.

The independent non-executive Directors have reviewed and were satisfied that each of them has complied with the deed of non-competition for the year ended 31 December 2019.

SHARE OPTION SCHEME

On 5 November 2010, the Company adopted a share option scheme ("Share Option Scheme") to incentivize or reward eligible participants (including (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and (iii) any advisers, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries) for their contribution to the Group for the purpose of motivating the eligible participants to optimize their performance efficiency for the benefit of the Group, and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long – term growth of the Group.

With the approval of the shareholders of the Company in general meetings, the Directors may "refresh" the scheme limit under the Share Option Scheme.

Pursuant to the shareholders' approval obtained by the Company and its annual general meeting held on 25 May 2017, the original scheme limit was refreshed to 111,630,600 shares, representing 10% of the then total number of shares in issue.

At the Company's extraordinary general meeting held on 28 May 2018, the scheme limit was refreshed and approved by the then shareholders such that the total number of shares which may fall to be issued upon exercise of all share options to be granted under the Share Option Scheme and any other share option scheme(s) as may from time to time be adopted by the Company must not exceed 166,802,317 i.e. 10% of the shares in issue as at the date of approval of the refreshed limit by the shareholders.

REPORT OF THE BOARD OF DIRECTORS

During the year under review 85,300,000 share options were granted under the Share Option Scheme. On 23 May 2019, 85,300,000 share options were granted under the Share Option Scheme. During 2019, 7,050,667 share options had lapsed and 0 share options had been exercised. As at 31 December 2019, 211,280,000 share options were outstanding. Movements of the share options granted during the year ended 31 December 2019 were as follows:

Name of grantee	No. of share options outstanding at the beginning of the Period	No. of share options granted during the Period	No. of share options cancelled during the Period	No. of share options lapsed during the Period	No. of share options exercised during the Period	No. of Share options outstanding at the end of the Period	Date of grant	Period during which share options are exercisable	Exercise price per share (HK$)	Closing Price of the shares at the date of grant (HK$)
Directors of the Company, employees of the Group and Ms. Fu Jingqiu (Chairwoman of the Group's largest distributor in the PRC and a substantial shareholder of the Company)	25,414,000	0	0	334,000	0	25,080,000	29 September 2014	(i) 7,593,335 share options: 29 September 2017 to 28 September 2024 (ii) 9,093,335 share options: 29 September 2018 to 28 September 2024 (iii) 8,393,330 share options: 29 September 2019 to 28 September 2024	3.58	3.40
Eligible participants	15,116,667	0	0	4,116,667	0	11,000,000	7 October 2015	(i) 3,666,668 share options: 7 October 2018 to 6 October 2025 (ii) 3,666,668 share options: 7 October 2019 to 6 October 2025 (iii) 3,666,664 share options: 7 October 2020 to 6 October 2025	3.75	3.75
Eligible participants	3,000,000	0	0	0	0	3,000,000	28 August 2017	(i) 1,000,000 share options: 28 August 2020 to 27 August 2027 (ii) 1,000,000 share options: 28 August 2021 to 27 August 2027 (iii) 1,000,000 share options: 28 August 2022 to 27 August 2027	3.88	3.88

Name of grantee	No. of share options outstanding at the beginning of the Period	No. of share options granted during the Period	No. of share options cancelled during the Period	No. of share options lapsed during the Period	No. of share options exercised during the Period	No. of Share options outstanding at the end of the Period	Date of grant	Period during which share options are exercisable	Exercise price per share (HK$) (HK$)	Closing Price of the shares at the date of grant (HK$)
Directors of the Company, employees of the Group	78,800,000	0	0	1,500,000	0	77,300,000	27 March 2018	(i) 15,460,000 share options: 27 September 2020 to 27 March 2028 (ii) 23,190,000 share options: 27 September 2021 to 27 March 2028 (iii) 38,650,000 share options: 27 September 2022 to 27 March 2028	4.54	4.54
Eligible participants	10,700,000	0	0	500,000	0	10,200,000	28 May 2018	(i) 2,040,000 share options: 28 May 2021 to 27 May 2028 (ii) 3,060,000 share options: 28 May 2022 to 27 May 2028 (iii) 5,100,000 share options: 28 May 2023 to 27 May 2028	5.122	4.78
Directors of the Company, employees of the Group	0	85,300,000	0	600,000	0	84,700,000	23 May 2019	(i) 16,940,000 share options: 23 May 2022 to 22 May 2029 (ii) 25,410,000 share options: 23 May 2023 to 22 May 2029 (iii) 42,350,000 share options: 23 May 2024 to 22 May 2029	3.75	1.87

The Company estimates the fair value of options granted using binomial tree model. The weighted average fair value of options granted during the year ended 31 December 2019, measured as at the dates of grant, was approximately HK$0.30 per option.

Significant estimates and assumptions are required to be made in determining the parameters for applying binomial tree model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying shares and the expected life of the options. These estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such equity awards expected to vest, which may in turn significantly impact the determination of the share based compensation expense. The following assumptions were used to derive the fair values of share options granted in 2019:

	Share options granted on 23 May 2019
Dividend yield (%)	1.50
Spot stock price (HK$ per share)	1.87
Historical volatility (%)	35.30
Risk-free interest rate (%)	1.58
Expected life of options (year)	10

REPORT OF THE BOARD OF DIRECTORS

As at 31 December 2019, the total number of shares available for issue under the Share Option Scheme was 71,902,316 shares, which represented 4.31% of the shares in issue as at the date of this annual report.

The options issued pursuant to the Share Option Scheme will expire no later than 10 years from the date of grant of the option.

For any options granted to Directors, chief executives or substantial shareholders of the Company, or any of their respective associate, options to be granted to any of these persons shall be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of options). Where any option granted to a substantial shareholder or an independent non – executive Director, or any of their respective associates, would result in the shares issued or to be issued upon exercise of all options already granted and to be granted to such person in the 12 month period, (i) representing in aggregate over 0.1% of the shares in issue on the date of such grant; and (ii) having an aggregate value, based on the closing price of the shares, in excess of HK$5 million, such grant of options shall be subject to prior approval by resolutions of the shareholders (voting by way of poll).

The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the total shares of the Company in issue, without prior approval from the shareholders of the Company and with such participants and his associates abstaining from voting.

The amount payable on acceptance of an option is HK$1.00, which will be payable on or before a prescribed acceptance date. In relation to any options granted under the Share Option Scheme, the exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Share Option Scheme does not contain any minimum period for which an option must be held before it can be exercised. However, at the time of granting of the options, the Board may specify any such minimum period.

Unless otherwise terminated by the Board or the shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption which was 5 November 2010, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

INTEREST AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2019, the interests or short positions of the Directors or chief executives of the Company then in office in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were 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 which would be required, pursuant to the Model Code, are as follows:

DIRECTORS' INTEREST IN THE SHARES

Name of Director	Nature of Interest	Number of Shares and/or Underlying Shares	Approximate percentage of Shareholding
Mr. Song Zhenghuan ("Mr. Song") (Notes 2&5)	Beneficiary of a trust/Beneficial owner/Interest of controlled corporation/Interest of spouse	770,122,427 (L)	46.17%
Mr. Martin Pos	Beneficial owner	84,633,498 (L)	5.07%
Mr. Xia Xinyue	Beneficial owner	20,000,000 (L)	1.20%
Mr. Liu Tongyou ("Mr. Liu") (Note 3)	Beneficial owner/ Interest of controlled corporation	44,057,573 (L)	2.64%
Mr. Michael Nan Qu	Beneficial owner/ Interest of spouse	11,709,000 (L)	0.7%
Ms. Fu Jingqiu ("Ms. Fu") (Notes 2 & 5)	Beneficiary of a trust/Beneficial owner/Interest of spouse	770,122,427 (L)	46.17%
Mr. Ho Kwok Yin, Eric	Beneficial owner	1,400,000 (L)	0.08%
Mr. Iain Ferguson Bruce	Beneficial owner	1,200,000 (L)	0.07%
Mr. Shi Xiaoguang	Beneficial owner	1,200,000 (L)	0.07%
Ms. Chiang Yun	Beneficial owner	1,200,000 (L)	0.07%
Mr. Jin Peng	Beneficial owner	400,000 (L)	0.02%

Notes:

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

(2) Mr. Song and Ms. Fu are beneficiaries of Grappa Trust of which Credit Suisse Trust Limited (Singapore) is the trustee. Ms. Fu is a beneficiary of Golden Phoenix Trust of which Credit Suisse Trust Limited (Guernsey) is the trustee. See notes (2) to (4) of the section headed "Substantial Shareholders' Interests and Short Positions" for further details of the interest.

(3) Mr. Liu is interested in 29,057,573 shares of the Company held through Silvermount Limited, a company wholly owned by him. He also holds 15,000,000 share options of the Company.

(4) Each of the Directors is deemed to have an interest in the underlying Shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") in respect of the Share Options of the Company granted to him/her, details are as follows:

Name of Director	Number of Share Options granted
Mr. Song Zhenghuan	1,390,000
Mr. Martin Pos	37,400,000
Mr. Xia Xinyue	20,000,000
Mr. Liu Tongyou	15,000,000
Mr. Michael Nan Qu	11,600,000
Ms. Fu Jingqiu	2,690,000
Mr. Ho Kwok Yin, Eric	1,400,000
Mr. Iain Ferguson Bruce	1,200,000
Mr. Shi Xiaoguang	1,200,000
Ms. Chiang Yun	1,200,000
Mr. Jin Peng	400,000

(5) Since Ms. Fu is Mr. Song's spouse, each of Mr. Song and Ms. Fu is deemed to have an interest in the underlying Shares of the Company within the meaning of Part XV of the SFO in respect of the Share Options of the Company granted to each of them.

REPORT OF THE BOARD OF DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2019, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Capacity	Number of Shares and/or Underlying Shares	Approximate Percentage of Shareholding
Cayey Enterprises Limited (Note 2)	Interest of Controlled Corporation/ Beneficial Owner	548,994,581 (L)	32.91%
Credit Suisse Trust Limited (Singapore) (Note 2)	Trustee	548,994,581 (L)	32.91%
Grappa Holdings Limited (Note 2)	Interest of Controlled Corporation	548,994,581 (L)	32.91%
Pacific United Developments Limited ("PUD") (Note 2)	Beneficial Owner	409,518,229 (L)	24.55%
Sure Growth Investments Limited (Note 3)	Beneficial Owner	129,293,975 (L)	7.75%
FIL Limited	Investment Manager	150,242,000 (L)	9.01%
Pandanus Associates Inc.	Investment Manager	150,242,000 (L)	9.01%
Pandanus Partners L.P.	Investment Manager	150,242,000 (L)	9.01%
Credit Suisse Trust Limited (Guernsey) (Note 4)	Trustee	87,753,871 (L)	5.26%
Golden Phoenix Limited	Interest of Controlled Corporation	87,753,871 (L)	5.26%
Rosy Phoenix Limited (Note 4)	Beneficial Owner	87,753,871 (L)	5.26%
FIDELITY FUNDS	Beneficial Owner	100,131,000 (L)	6.00%
Brown Brothers Harriman & Co.	Agent	99,614,610 (L)	5.97%

Notes:

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

(2) PUD is owned as to approximately 52.37% by Cayey Enterprises Limited, which in turn is, as at 31 December 2019, wholly owned by Grappa Holdings Limited the issued share capital of which is owned as to 50% by Seletar Limited and as to 50% by Serangoon Limited, as nominees for Credit Suisse Trust Limited (Singapore), which is the trustee holding 548,994,581 interest on trust for the beneficiaries of the Grappa Trust. The beneficiaries of the Grappa Trust include Mr. Song, Ms. Fu and family members of Mr. Song and Ms. Fu. The Grappa Trust is a revocable discretionary trust established under the laws of Singapore.

(3) Sure Growth Investments Limited is owned as to 44.44% by Mr. Song, as to 22.22% by Ms. Fu, as to 11.11% by Mr. Liu, executive director of the Company and as to 5.56% by Mr. Michael Nan Qu, executive director of the Company.

(4) Rosy Phoenix Limited is indirectly held by Credit Suisse Trust Limited (Guernsey) as the trustee of the Golden Phoenix Trust; Ms. Fu is the settlor of the Golden Phoenix Trust and Credit Suisse Trust Limited (Guernsey) is the trustee holding 87,753,871 interest on trust for the beneficiaries that include Ms. Fu.

SUBSIDIARIES

The Group's operations are conducted worldwide through its direct or indirect subsidiaries. Details of the principal subsidiaries of the Company as at 31 December 2019 are set out in note 1 to the Financial Statements.

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 ended 31 December 2019.

CONNECTED TRANSACTIONS

The Group's related parties transactions marked with "#" for the year ended 31 December 2019 set out in note 37 to the Financial Statements constitute continuing connected transactions as defined in chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS WHICH ARE EXEMPTED FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT, BUT SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS OF THE LISTING RULES

(A) FIRST PINGXIANG LEASE AGREEMENT

On 28 December 2012, Goodbaby Group Pingxiang Co., Ltd.* (好孩子集團平鄉有限公司) ("GGPX") and Goodbaby Child Products Pingxiang Co., Ltd.* (好孩子兒童用品平鄉有限公司) ("GCPX") entered into a lease agreement (the "2012/13/14 Pingxiang Lease Agreement"), pursuant to which GGPX agreed to lease certain premises located in Pingxiang County, Hebei Province, PRC (the "Properties") to GCPX for a three-year period commencing from 1 January 2013 and ended on 31 December 2015. On 7 October 2015, GGPX and GCPX entered into a renewal agreement (the "First Pingxiang Lease Agreement") to renew the 2012/13/14 Pingxiang Lease Agreement for a fixed term of 3 years commencing from 1 January 2016 and ended on 31 December 2018.

Pursuant to the First Pingxiang Lease Agreement, GGPX agreed to lease the Properties to GCPX principally for production and for manufacturing plants and manufacturing support facilities purposes. The aggregate annual rental of the Properties payable by GCPX to GGPX was determined with reference to the market rental rate as well as the qualities of other properties in the area surrounding the Properties under the First Pingxiang Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

On 28 August 2018, GGPX and GCPX entered into a renewal agreement (the "2018 First Lease Agreement") to renew the First Pingxiang Lease Agreement for a term of 3 years commencing from 1 January 2019 and ending on 31 December 2021.

Pursuant to the 2018 First Lease Agreement, GGPX agreed to lease Property I (as defined in the announcement of the Company dated 28 August 2018) to GCPX principally for production and for manufacturing and manufacturing support facilities purposes. The aggregate lease area has increased from 78,131.1 m^2 under the First Pingxiang Lease Agreement to 84,070.8 m^2 under the 2018 First Lease Agreement to include a new property. The additional space will be used for manufacturing and ancillary services.

The aggregate annual rental payable by GCPX to GGPX under the 2018 First Lease Agreement was determined with reference to the prevailing market rent as well as the qualities of other properties in the area surrounding the properties under the 2018 First Lease Agreement (i.e. Property I) and may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

The annual caps under the 2018 First Lease Agreement for each of the three years ending 31 December 2021 are RMB10,593,000, RMB11,098,000 and RMB11,602,000, respectively.

The rental payable by GCPX to GGPX in relation to the Properties for the year ended 31 December 2019 was RMB10,088,494 (approximately HK$11,450,000).

GGPX is a wholly-owned subsidiary of 好孩子集團有限公司 (Goodbaby Group Co., Ltd.*) ("GGCL"), a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGPX is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the First Pingxiang Lease Agreement constitute as a connected transaction for the Company.

For further details, please refer to the announcements of the Company dated 7 October 2015 and 28 August 2018.

* *For identification purpose only*

REPORT OF THE BOARD OF DIRECTORS

(B) SECOND PINGXIANG LEASE AGREEMENT

On 18 March 2014, GGPX and Goodbaby Child Products Co., Ltd.* (好孩子兒童用品有限公司) ("GCPC") entered into a lease agreement (the "2014 Pingxiang Lease Agreement"), pursuant to which GGPX agreed to lease certain premises located in Pingxiang County, Hebei Province, PRC (the "Property V") to GCPC commencing from 1 April 2014 and ended on 31 December 2015. On 7 October 2015, GGPX and GCPC entered into a renewal agreement (the "Second Pingxiang Lease Agreement") to renew the 2014 Pingxiang Lease Agreement for a fixed term of 3 years commencing from 1 January 2016 and ended on 31 December 2018. Pursuant to the Second Pingxiang Lease Agreement, GGPX agreed to lease Property V to GCPC principally for the usage as logistics warehouse purpose.

The aggregate annual rental payable by GCPC to GGPX under the Second Pingxiang Lease Agreement is determined with reference to the market rental rate as well as the qualities of other properties in the area surrounding the Property V under the Second Pingxiang Lease Agreement and (where applicable) may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

On 28 August 2018, GGPX and GCPC entered into a renewal agreement (the "2018 Second Lease Agreement") to renew the Second Pingxiang Lease Agreement for a term of 3 years commencing from 1 January 2019 and ending on 31 December 2021.

Pursuant to the 2018 Second Lease Agreement, GGPX agreed to lease Property II (as defined in the announcement of the Company dated 28 August 2018) to GCPC principally for the usage as logistics warehouse purpose. The aggregate annual rental payable by GCPC to GGPX under the 2018 Second Lease Agreement was determined with reference to the prevailing market rent as well as the qualities of other properties in the area surrounding the properties under the 2018 Second Lease Agreement (i.e. Property II) and may be adjusted in accordance with the terms of the lease by mutual agreement or by the appointment of an independent valuator with international reputation and acceptable to both parties. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

The annual caps under the 2018 Second Lease Agreement for each of the three years ending 31 December 2021 are RMB1,847,000, RMB1,924,000 and RMB2,001,000, respectively.

The rental payable by GCPC to GGPX in relation to the Property V for the year ended 31 December 2019 was RMB1,758,421 (approximately HK$1,996,000).

GGPX is a wholly-owned subsidiary of GGCL, a company which is held as to approximately 67.11% by Mr. Song Zhenghuan, the Company's chairman and executive Director and his spouse. Accordingly, GGPX is a connected person of the Company under Chapter 14A of the Listing Rules and the entering of the Second Pingxiang Lease Agreement constitute as a connected transaction for the Company.

For further details, please also refer to the announcements of the Company dated 7 October 2015 and 28 August 2018.

* *For identification purpose only*

(C) 2018 SUPPLY AGREEMENT WITH GCHL

On 28 August 2018, the Company and GCHL entered into a supply agreement (the "2018 Supply Agreement") for a fixed term of 3 years commencing from 1 January 2019 and ending on 31 December 2021.

Pursuant to the 2018 Supply Agreement, the Company agreed to supply, or procure its subsidiaries to supply, among other things, (i) durable juvenile products of strollers, children's car seats, cribs, children's bicycles and other durable juvenile products under the "CYBEX", "Evenflo", "gb", "Happy Dino" and other brands; and (ii) non-durable juvenile products of infant, hygiene care, wipes, apparels, footwear and accessories and other non – durable juvenile products under "gb", "Happy Dino" and other brands ("MBC Products") to GCHL and its subsidiaries as non-exclusive distributors to distribute the MBC Products domestically in the PRC.

Subject to the 2018 Supply Agreement, the total price and terms of each order will be set out in individual contracts. The price of each MBC Product to be supplied by the Group under the 2018 Supply Agreement will be determined upon arm's length negotiation between the parties in the ordinary course of business of the Group.

To determine the prevailing market price, the production or outsourcing department of the Company will provide the cost analysis in relation to each MBC Product to the market and sales department for consideration. The prevailing market price is determined through market research involving obtaining questionnaires from potential customers and/or distributors based on the type and nature of the relevant product. At the same time, the market and sales department will also obtain quotes of similar products from not less than two competing brands unless such quotes are not available for certain types of products. Once the information on prevailing market price of the relevant product has been gathered through market research, the market and sales department will determine the proposed benchmark retail price and then discuss with the finance department on the gross profit requirement applicable to each relevant product in order to determine the mark-up rate as well as the discount rate applicable to each relevant product, and submit the final purchase price of the relevant product to the general manager of the market and sales department for final approval.

The price of each MBC Product will be determined along the following principles:

(1) Pre-determine a benchmark retail price for each MBC Product;

(2) Determine the discount rate; and

(3) Ensure the terms offered to GCHL and its subsidiaries, as connected persons of the Group, are no more favourable to the terms offered to independent third parties.

The annual caps under the 2018 Supply Agreement for each of the three years ending 31 December 2021 are RMB45,100,000, RMB63,400,000 and RMB89,600,000, respectively.

The translation between the Company and its subsidiaries and GCHL and its subsidiaries in relation to the Products sold for the year ended 31 December 2019 was RMB26,194,580 (approximately HK$29,730,413). For further details, please also refer to the announcements of the Company 28 August 2018.

GCHL is a company which is held as to approximately 94.58% by companies ultimately controlled by the Chairman and his spouse, including Pacific United Developments Limited ("PUD"), a substantial shareholder of the Company. Accordingly, GCHL is an associate of the Chairman under the Listing Rules and thus it is regarded as a connected person of the Company under the Listing Rules and the entering of the 2018 Supply Agreement constitutes as a connected transaction for the Company.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions above of the Group.

REPORT OF THE BOARD OF DIRECTORS

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain agreed-upon procedures on the aforesaid continuing connected transactions. Based on the work performed, the auditors of the Company have provided a letter to the Board confirming that the aforesaid continuing connected transactions:

(i) have been approved by the Directors;

(ii) were entered into in accordance with the pricing policies of the Company;

(iii) were entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iv) did not exceed the annual cap amounts.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange. Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER RULE 13.18 OF THE LISTING RULES

JULY 2018 FACILITY AGREEMENT

To refinance certain existing bank loans, on 16 July 2018, Goodbaby (Hong Kong) Limited, a wholly – owned subsidiary of the Company (as borrower), the Company (as guarantor), one financial institution (as mandated lead arranger, bookrunner, facility agent and security agent) and certain financial institutions (as original lenders) entered into a facility agreement (the "July 2018 Facility Agreement") in respect of a US$152,000,000 term loan facility with a term of 36 months from the first utilisation date. The total commitment under the July 2018 Facility Agreement may be increased by not more than US$98,000,000 by way of accession(s) of additional lender(s).

Under the July 2018 Facility Agreement, if Mr. Song together with his family (i) is no longer the single largest beneficial shareholder of the Company or (ii) no longer beneficially owns at least 20% of the issued share capital of the Company, then the borrower shall:

(1) immediately notify the facility agent thereof. Forthwith after the issuance of such notice, no further utilisation shall be made and all the available facility shall be automatically cancelled in full; and

(2) at the request of any lender prepay that lender's participation in the loans together with accrued interests thereon and break costs (if any).

As at the date of this report, US$164,000,000 remains outstanding in respect of this July 2018 Facility Agreement. For further details, please also refer to the announcement of the Company dated 16 July 2018.

DECEMBER 2018 FACILITY AGREEMENT

To refinance certain existing bank loans, on 28 December 2018, Serena Merger Co., Inc., a wholly – owned subsidiary of the Company (as borrower), Goodbaby (Hong Kong) Limited, a wholly-owned subsidiary of the Company and the Company (as guarantors), one financial institution (as mandated lead arranger, bookrunner, facility agent and security agent) and certain financial institutions (as original lenders) entered into a facility agreement (the "December 2018 Facility Agreement") in respect of a US$100,000,000 term loan facility with a term of 36 months from the first utilisation date. The total commitment under the Facility Agreement may be increased by not more than US$20,000,000 by way of accession(s) of additional lender(s).

Under the December 2018 Facility Agreement, if Mr. Song together with his family (i) is no longer the single largest beneficial shareholder of the Company or (ii) no longer beneficially owns at least 20% of the issued share capital of the Company, then the borrower shall:

(1) immediately notify the facility agent thereof. Forthwith after the issuance of such notice, no further utilisation shall be made and all the available facility shall be automatically cancelled in full; and

(2) at the request of any lender prepay that lender's participation in the loans together with accrued interests thereon and break costs (if any).

The term loan facility under this December 2018 Facility Agreement was fully utilised in January 2019. As at the date of this report, US$100,000,000 remains outstanding in respect of this December 2018 Facility Agreement.

For further details, please also refer to the announcement of the Company dated 31 December 2018.

Save as disclosed above, as at 31 December 2019, the Company did not have other disclosure obligations under Rule 13.18 of the Listing Rules.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2019, the Group has a total of 11,180 full – time employees (as at 31 December 2018, the Group had a total of 12,397 full-time employees). For the year ended 31 December 2019, costs of employees, excluding Directors' emoluments, amounted to a total of HK$1,703.6 million (2018: HK$1,750.5 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale. The Group provides its employees in the PRC and other countries and regions with welfare schemes as required by applicable local laws and regulations.

The Company has also adopted a share option scheme on 5 November 2010. Details of the share option scheme are set out in the paragraph headed "Share Option Scheme" in this section.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ENVIRONMENTAL PROTECTION

While maintaining our own production and operation capabilities, the Company also has reinforced the fusion of environmental protection, safety, health and social responsibility into our corporate development strategies by establishing the ESG report working team in line with our business development. The Company and the Group uphold the concept of sustainable development, focus attention on the design of research and development, production and operation environment, social and governance risks, strive to achieve sustainable growth.

The Company considers our staff, shareholders and potential investors, government authorities, suppliers, community individuals, media and consumers as our key stakeholders, and values highly the expectations and opinions of our stakeholders on us with respect to environment, society and governance. The Company has commenced multi-dimensional risk analysis, identified issues on the environment, society and importance of governance which are the concerns in our own development and of the relevant stakeholders, and an independent ESG report has been published.

REPORT OF THE BOARD OF DIRECTORS

For further relevant information regarding our performance on environment, society and governance during the current financial year, please refer to the Environmental, Social and Governance section in the annual report for details.

The Company has formulated the compliance procedures to ensure compliance with, in particular, the applicable laws, rules and regulations having material effect on us. The relevant employees and the relevant operating entities will be informed of any changes in the applicable laws, rules and regulations from time to time.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the corporate governance report contained in this annual report.

CONFIRMATION OF INDEPENDENT STATUS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors independent.

INDEMNITY AND INSURANCE PROVISIONS

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against Directors. Also, each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the Articles of Association.

EXCHANGE RISKS

Details of the exchange risks are set out in note 40 to the Financial Statements.

PURCHASE, SALE, REDEMPTION OR RE-PURCHASE OF SHARES

There was no purchase, sale, redemption and re-purchase of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2019.

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

DISCLOSURE OF INFORMATION OF DIRECTORS UNDER RULES 13.51(2) AND 13.51B(1) OF THE LISTING RULES

Changes in Directors' biographical details since the date of the 2019 interim report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51(B)(1) of the Listing Rules, are set out below.

There is no change of information of each Director that is required to be disclosed under Rules 13.51(2) and 13.51(B)(1) of the Listing Rules since the publication of the 2019 interim report of the Company.

EVENT AFTER THE REPORTING PERIOD

Details of the event after the reporting period of the Group are set out in note 42 to the Financial Statements.

FINANCIAL SUMMARY

The summary of the results, assets and liabilities of the Group in the past five financial years is set out in page 243 of this report.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro–rata basis to existing shareholders.

SUFFICIENT PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules for the year ended 31 December 2019.

AUDITORS

The financial statements of the Company for the year ended 31 December 2019 have been audited by Ernst & Young which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming annual general meeting.

For and on behalf of the Board of Directors
Song Zhenghuan
Chairman

24 March 2020

Independent Auditors' Report

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Goodbaby International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Goodbaby International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 123 to 242, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and intangible assets with indefinite lives	
The goodwill and other intangible assets with indefinite lives of the Group arose from business combinations, amounted to HK$2,637 million and HK$1,653 million as at 31 December 2019, which represented 24% and 15% of the total assets, respectively. The Group is required to perform impairment testing on goodwill and intangible assets with indefinite life annually. Management's assessment process involves significant estimates and judgements, including assessing expected future cash flow forecasts, associated growth rates, budgeted gross margins and the discount rates applied. The Group's disclosures about goodwill and intangible assets with indefinite lives are included in Note 2.4, Note 3 and Note 16 to the financial statements.	Our audit procedures, among others, included an assessment of the evaluation of management and testing of key assumptions, methodologies, cash-generating unit determination, cash flow forecast and other data used by the Group. In performing audit procedures, we checked the sales assumption to historical actual sales with growth rates comparable to the market and assessed budgeted gross margin against historical trend and the discount rate assumption against cost of equity and cost of debt of comparable companies. We also involved our internal specialists to assist us in assessing the assumptions and methodologies used by the Group. We also focused on the adequacy of the Group's disclosures of the assumptions to which the outcome of the impairment test is more sensitive.
Provision for product liabilities	
As at 31 December 2019, the provisions for product liabilities amounted to HK$70 million. The Group made provisions for product liabilities in relation to the indemnity provided to its customers for damages or injuries caused in connection with the use of the Group's sold products. The provision for product liabilities involved significant management estimation and judgments based upon estimated future costs to be incurred in claims. The Group engaged an external valuation expert to perform an estimation of product liabilities obligation, and there were significant estimates included in the management's analysis and projection, such as discount rates used and an assessment on possible outcome of the claims based on historical experience. The Group's disclosures about provision for product liabilities are included in Note 2.4, Note 3 and Note 26 to the financial statements.	Our audit procedures, among others, included understanding the basis for the provisions made and assessing the consistency of the provisioning policy applied. We also assessed management estimation and key assumptions by reference to the historical experience and trend, and checked subsequent claims after the end of the reporting period. In performing our audit procedures, we involved our internal valuation specialists to assess the valuation methodology used and key assumptions applied to calculate the provision. We also obtained confirmations from external legal counsels for those claims in progress regarding product liabilities.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also provide the Audit Committee 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.

From the matters communicated with the Audit Committee, 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 Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong
24 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2019

	Notes	2019	2018
		(HK$'000)	
Revenue	5	8,777,142	8,629,115
Cost of sales		(4,996,484)	(4,967,782)
Gross profit		3,780,658	3,661,333
Other income and gains	5	74,116	98,303
Selling and distribution expenses		(2,274,966)	(2,208,873)
Administrative expenses		(1,170,329)	(1,207,135)
Other expenses		(19,544)	(16,803)
Finance income	6	4,543	3,867
Finance costs	7	(141,856)	(123,576)
Share of profits and losses of:			
Joint ventures		339	407
An associate		(131)	–
PROFIT BEFORE TAX	8	**252,830**	**207,523**
Income tax expense	11	(50,262)	(40,692)
PROFIT FOR THE YEAR		**202,568**	**166,831**
Attributable to:			
Owners of the parent		202,194	163,764
Non-controlling interests		374	3,067
		202,568	166,831
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	13		
Basic			
For profit for the year (HK$)		0.12	0.10
Diluted			
For profit for the year (HK$)		0.12	0.10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2019

	2019	2018
	(HK$'000)	
PROFIT FOR THE YEAR	**202,568**	**166,831**
OTHER COMPREHENSIVE LOSS		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges		
Effective portion of changes in fair value of hedging instruments arising during the year	3,794	(7,157)
Reclassification adjustments for gains included in the consolidated statement of profit or loss	(2,341)	(10,046)
Income tax effect	(218)	3,137
	1,235	(14,066)
Exchange differences on translation of foreign operations	(123,711)	(303,100)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(122,476)	(317,166)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Actuarial (loss)/gains of defined benefit plans	(1,724)	4,389
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	(1,724)	4,389
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(124,200)**	**(312,777)**
TOTAL COMPREHENSIVE INCOME/ (LOSS)FOR THE YEAR	**78,368**	**(145,946)**
Attributable to:		
Owners of the parent	78,093	(148,930)
Non-controlling interests	275	2,984
	78,368	**(145,946)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2019

	Notes	31 December 2019	31 December 2018
		(HK$'000)	
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,059,572	1,077,786
Right-of-use assets	15(b)	296,480	–
Prepaid land lease payments	15(a)	–	50,925
Goodwill	16	2,637,062	2,682,108
Other intangible assets	17	2,177,501	2,238,039
Investments in joint ventures		5,903	5,078
Investment in an associate		2,082	–
Deferred tax assets	29	121,569	151,589
Other long-term assets	18	8,781	7,999
Total non-current assets		6,308,950	6,213,524
CURRENT ASSETS			
Inventories	19	1,954,471	1,943,977
Trade and notes receivables	20	1,075,634	1,097,040
Prepayments and other receivables	21	441,332	418,987
Due from a related party	37	11,595	11,571
Cash and cash equivalents	22	1,054,615	926,952
Time deposits	22	–	3,447
Pledged deposits	22	24,031	–
Derivative financial instruments	23	6,334	2,987
Total current assets		4,568,012	4,404,961
CURRENT LIABILITIES			
Trade and bills payables	24	1,324,362	1,439,374
Other payables and accruals	25	808,158	760,566
Income tax payable		11,960	16,497
Provision	26	35,552	37,446
Interest-bearing bank loans and other borrowings	27	892,220	887,462
Lease liabilities	15(c)	98,388	–
Derivative financial instruments	23	4,571	1,058
Defined benefit plan liabilities	28	631	705
Dividends payable		8	8
Total current liabilities		3,175,850	3,143,116

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2019

	Notes	31 December 2019	31 December 2018
		(HK$'000)	
NET CURRENT ASSETS		1,392,162	**1,261,845**
TOTAL ASSETS LESS CURRENT LIABILITIES		7,701,112	**7,475,369**
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	27	1,861,526	1,889,728
Provision	26	50,357	44,984
Defined benefit plan liabilities	28	5,201	7,281
Other liabilities	30	5,633	13,953
Lease liabilities	15(c)	156,808	–
Deferred tax liabilities	29	535,453	556,317
Total non-current liabilities		2,614,978	2,512,263
Net assets		5,086,134	4,963,106
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	16,680	16,680
Reserves	33	5,020,793	4,898,040
		5,037,473	4,914,720
Non-controlling interests		48,661	48,386
Total equity		5,086,134	4,963,106

SONG Zhenghuan
Director

LIU Tongyou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the parent												
	Share capital	Share premium	Share option reserve	Statutory reserve funds	Cumulative translation adjustments	Defined benefit plans	Merger reserve	Capital reserve	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	(HK$'000)												
	(note 31)			(note 33)		(note 28)	(note 33)						
At 1 January 2018	16,662	3,395,474	36,768	177,764	176,893	1,101	153,975	(20,244)	12,460	1,157,031	5,107,884	57,983	5,165,867
Profit for the year	–	–	–	–	–	–	–	–	–	163,764	163,764	3,067	166,831
Remeasurement effects of defined benefit plans	–	–	–	–	–	4,389	–	–	–	–	4,389	–	4,389
Cash flow hedges, net of tax	–	–	–	–	–	–	–	–	(14,066)	–	(14,066)	–	(14,066)
Exchange differences on translation	–	–	–	–	(303,017)	–	–	–	–	–	(303,017)	(83)	(303,100)
Total comprehensive loss for the year	–	–	–	–	(303,017)	4,389	–	–	(14,066)	163,764	(148,930)	2,984	(145,946)
Contribution from a non-controlling interest	–	–	–	–	–	–	–	–	–	–	–	3,754	3,754
Dividends	–	(83,401)	–	–	–	–	–	–	–	–	(83,401)	(16,335)	(99,736)
Put option over non-controlling interests	–	–	–	–	–	–	–	(1,407)	–	–	(1,407)	–	(1,407)
Share options exercised	18	8,328	(2,011)	–	–	–	–	–	–	–	6,335	–	6,335
Profit appropriation	–	–	–	22,443	–	–	–	–	–	(22,443)	–	–	–
Equity-settled share option arrangements	–	–	34,239	–	–	–	–	–	–	–	34,239	–	34,239
At 31 December 2018 and 1 January 2019	**16,680**	**3,320,401**	**68,996**	**200,207**	**(126,124)**	**5,490**	**153,975**	**(21,651)**	**(1,606)**	**1,298,352**	**4,914,720**	**48,386**	**4,963,106**
Profit for the year	–	–	–	–	–	–	–	–	–	202,194	202,194	374	202,568
Remeasurement effects of defined benefit plans	–	–	–	–	–	36	–	–	–	–	36	–	36
Transfer of defined benefit plan reserve upon the termination of ERA plan	–	–	–	–	–	(1,760)	–	–	–	–	(1,760)	–	(1,760)
Cash flow hedges, net of tax	–	–	–	–	–	–	–	–	1,235	–	1,235	–	1,235
Exchange differences on translation	–	–	–	–	(123,612)	–	–	–	–	–	(123,612)	(99)	(123,711)
Total comprehensive income for the year	–	–	–	–	(123,612)	(1,724)	–	–	1,235	202,194	78,093	275	78,368
Profit appropriation	–	–	–	16,451	–	–	–	–	–	(16,451)	–	–	–
Equity-settled share option arrangements	–	–	44,660	–	–	–	–	–	–	–	44,660	–	44,660
As at 31 December 2019	16,680	3,320,401*	113,656*	216,658*	(249,736)*	3,766*	153,975*	(21,651)*	(371)*	1,484,095*	5,037,473	48,661	5,086,134

* These reserve accounts comprise the consolidated reserves of HK$5,020,793,000 (2018: HK$4,898,040,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2019

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES	(HK$'000)	
Profit before tax	252,830	207,523
Adjustments for:		
Finance costs	141,856	123,576
Share of profits and losses of joint ventures and an associate	(208)	(407)
Interest income	(4,543)	(3,867)
Gain on wealth investment products received	(2,853)	(407)
Loss on disposal of items of property, plant and equipment	9,462	12,718
Fair value losses/(gains), net		
Cash flow hedges (transfer from equity)	323	723
Derivative instruments – transactions not qualifying as hedges	–	(3,680)
Depreciation and amortisation	316,488	290,553
Depreciation of right-of-use assets	95,236	–
Write-down of/(reversal of) inventories	13,768	(6,442)
Provision for impairment of receivables	10,119	22,515
Equity-settled share option expenses	44,660	34,239
	877,138	677,044
(Increase)/decrease in derivative financial assets	(3,347)	19,263
Increase/(decrease) in derivative financial liabilities	3,513	(3,350)
Decrease in defined benefit plan liabilities	(2,154)	(3,454)
Decrease in other liabilities	(8,320)	(136)
Increase in inventories	(24,262)	(76,259)
Decrease in trade and notes receivables	11,287	52,183
Increase in prepayments and other receivables	(33,465)	(112,585)
Increase in amounts due from related parties	(24)	(11,571)
Increase in amounts due to related parties	–	2,629
Increase in other long-term assets	(782)	(775)
(Decrease)/increase in trade and bills payables	(115,012)	126,801
Increase/(decrease) in other payables and accruals	23,776	(98,675)
Increase/(decrease) in provision	3,479	(11,487)
Cash generated from operations	731,827	559,628
Income tax paid	(45,600)	(127,818)
Net cash flows generated from operating activities	686,227	431,810

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2019

	Notes	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		(HK$'000)	
Investment in an associate		(2,213)	–
Purchase of property, plant and equipment		(289,487)	(376,080)
Purchase of intangible assets		(17,842)	(24,810)
Payment of acquisition related cost		–	(38,015)
Decrease in wealth management product		–	138,088
Interest received		4,543	2,411
Gain on wealth investment products received		2,853	407
Decrease in time deposits		3,447	80,607
Proceeds from disposal of intangible assets		–	49
Proceeds from disposal of items of property, plant and equipment		15,079	47,229
Net cash flows used in investing activities		(283,620)	(170,114)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		–	6,335
Contribution from a non-controlling interest		–	3,754
New bank borrowings		5,984,638	2,250,093
Repayment of bank borrowings		(6,005,395)	(2,199,560)
Interest paid		(125,214)	(131,315)
Principal portion of lease payments		(83,813)	–
(Increase)/decrease in pledged deposits		(24,031)	15,370
Decrease in amounts due to related parties		–	(101,772)
Dividends paid		–	(83,401)
Dividends paid to a non-controlling interest		–	(16,335)
Net cash flows used in financing activities		(253,815)	(256,831)
NET INCREASE IN CASH AND CASH EQUIVALENTS		148,792	4,865
Cash and cash equivalents at beginning of year		926,952	952,153
Effect of foreign exchange rate changes, net		(21,129)	(30,066)
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	1,054,615	926,952

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 14 July 2000 as an exempted company with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 November 2010.

The Group is principally engaged in the manufacture and distribution of products for children.

INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at the reporting date are as follows:

Name of company	Place and date of incorporation/ registration and operation	Percentage of equity interest attributable to the Company		Paid-in/issued and fully paid share capital	Principal activities
Subsidiaries		Direct	Indirect		
Goodbaby (Hong Kong) Limited ("GBHK")	Hong Kong, 23 July 1999	100%	–	HK$1,000	Investment holding and sales agent company
Goodbaby Child Products Co., Ltd. ("GCPC")	The People's Republic of China ("PRC"), 18 November 1994	–	100%	US$51,500,000	Manufacture, distribution and sale of safety belts, cloth sets, car safety seats, car components for children, infant strollers and bicycles
Ningbo Goodbaby Child Products Co., Ltd. ("GCPN")	PRC, 9 September 1996	–	85%	RMB10,000,000	Manufacture, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
Paragon Child Product Co., Ltd. ("PCPC")	PRC, 5 November 2008	–	100%	RMB10,000,000	Manufacture, distribution and sale of bicycles, sports utilities, e-cars and wooden products
Pingxiang Goodbaby Child Products Co., Ltd. ("GCPX")	PRC, 26 December 2011	–	100%	RMB2,000,000	Manufacture, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
EQO Testing and Certification Services Co., Ltd. ("EQTC")	PRC, 30 November 2012	–	100%	RMB5,000,000	Testing of children's products, tools, electronic products and advisory for risk valuation of product quality
Serena Merger Co., Inc. ("SERE")	U.S., 28 May 2014	–	100%	US$1,000	Investment holding
Evenflo Company, Inc. ("EFCD")	U.S., 1 October 1992	–	100%	US$86,500	Manufacture, distribution and sale of car safety seats, infant strollers and baby related products
Muebles Para Ninos De Baja, S.A. De C.V. ("EFMX")	Mexico, 29 June 1987	–	100%	Peso1,720,000	Manufacture of baby related products
Goodbaby Canada Inc. ("EFCA")	Canada, 18 March 1991	–	100%	US$7,000	Distribution and sale of baby related products

1. CORPORATE AND GROUP INFORMATION (Continued)

INFORMATION ABOUT SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries as at the reporting date are as follows: (Continued)

Name of company	Place and date of incorporation/ registration and operation	Percentage of equity interest attributable to the Company		Paid-in/issued and fully paid share capital	Principal activities
Subsidiaries		Direct	Indirect		
Columbus Trading-Partners GmbH & Co. KG ("CTPE")	Germany, 26 February 2016	–	100%	EUR100	Distribution and sale of car safety seats, infant strollers and other parenting products
Goodbaby Czech Republic s.r.o. ("GBCZ")	Czech Republic, 8 February 2016	–	100%	CZK200,000	IT services and a share service centre
Goodbaby (Europe) Gmbh & Co KG ("GEGC")	Germany, 28 January 2014	–	100%	EUR100	Investment holding
CYBEX GmbH ("CBGM")	Germany, 5 March 2014	–	100%	EUR33,400	Purchase, sale, holding and management of participating interests and development and production of child car-seats, strollers, child carrying systems, pushchairs, high chairs and other products for children
GB GmbH ("GBGM")	Germany, 21 August 2015	–	100%	EUR25,000	Purchase, sale, holding and management of participating interests and development and production of child car-seats, strollers, child carrying systems, pushchairs, high chairs and other products for children
Columbus Trading Partners USA Inc. ("CBUS")	U.S., 24 November 2014	–	100%	US$1	Distribution and sale of car safety seats, infant strollers and other parenting products
Columbus Trading Partners Scandinavia A/S ("CBDK")	Denmark, 1 September 2015	–	70%	DKK500,000	Distribution and sale of car safety seats, infant strollers and other parenting products
Columbus Trading Partners Japan Limited ("CBJP")	Japan, 20 February 2018	–	80%	JPY2,200,000	Distribution and sale of car safety seats, infant strollers and other parenting products
Goodbaby (China) Retail & Service Company ("GRCN")	PRC, 11 May 2016	–	100%	RMB50,000,000	Wholesale and retail of children's products
Shanghai Goodbaby Children Fashion Co., Ltd. ("SHFS")	PRC, 20 January 1998	–	100%	RMB20,000,000	Distribution and retail business of children's products
Goodbaby Nantong Fashion Co., Ltd. ("NTFS")	PRC, 19 March 2015	–	80%	RMB10,000,000	Wholesale and retail of children's products

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for call and put options over non-controlling interests, derivative financial instruments and wealth management products which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION (Continued)

BASIS OF CONSOLIDATION (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements:

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(A) IFRS 16 replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(A) (Continued)

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset).

Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank loans and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(A) (Continued)

As a lessee – Leases previously classified as operating leases (Continued)

Impact on transition (Continued)

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease)
	HK$'000
Assets	
Increase in right-of-use assets	274,031
Decrease in prepaid land lease payments	(50,925)
Decrease in prepayments, other receivables and other assets	(2,623)
Increase in total assets	**220,483**
Liabilities	
Increase in lease liabilities	**220,483**

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	285,022
Weighted average incremental borrowing rate as at 1 January 2019	1.75% to 5.30%
Discounted operating lease commitments as at 1 January 2019	253,054
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(3,977)
Commitments not relating to underlying assets under IFRS 16	(28,580)
Commitments relating to leases of low-value assets	(14)
Lease liabilities as at 1 January 2019	**220,483**

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(B) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group does not have any long-term interests in associates and joint ventures. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(C) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy would be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-curent*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

[1] Effective for annual periods beginning on or after 1 January 2020
[2] Effective for annual periods beginning on or after 1 January 2021
[3] Effective for annual periods beginning on or after 1 January 2022
[4] No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate and a joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the Group's investment in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate or joint venture is included as part of the Group's investment in associate or a joint venture.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for controls the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All of the components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS AND GOODWILL (Continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value either recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets of liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENT

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of items of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis over the estimated useful life of each item of property, plant and equipment, after taking into account the residual value as follows:

	Estimated useful lives	Estimated residual value
Freehold land	Not depreciated	–
Buildings	20 years	0-10%
Plant and machinery	5-15 years	0-10%
Motor vehicles	3-5 years	0-10%
Furniture and fixtures	3-15 years	–
Leasehold improvements	The lesser of lease terms and useful lives	–

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31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Trademarks

Trademarks are capitalised and amortised using the straight-line method over their estimated useful lives of ten to thirty years except for certain trademarks amounting to HK$1,652,609,000 (2018: HK$1,686,186,000) acquired through the business combinations of Columbus Holding GmbH, WP Evenflo Group Holdings, Inc. and Oasis Dragon Limited whose useful lives are indefinite, as their legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration, and based on future financial performance of the Group, they are expected to generate positive cash flows indefinitely.

Computer software

Expenditure on computer software is capitalised and amortised using the straight-line method over its estimated useful life of five years to ten years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL) (Continued)

Patents, non-compete agreement and customer relationship

Expenditure on acquired patents, a non-compete agreement and customer relationship is capitalised and amortised using the straight-line method over their estimated useful lives of five to twenty years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

LEASES (APPLICABLE FROM 1 JANUARY 2019)

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

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31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES (APPLICABLE FROM 1 JANUARY 2019) (Continued)

Group as a lessee (Continued)

(a) *Right-of-use assets* (Continued)

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	10-50 years
Buildings	1-10 years
Plant and machinery	3-6 years
Motor vehicles	1-5 years
Furniture and fixtures	2-5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank loans and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES (APPLICABLE FROM 1 JANUARY 2019) (Continued)

Group as a lessee (Continued)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to of ownership of an underlying assets to the lessee are accounted for as finance leases.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES (APPLICABLE BEFORE 1 JANUARY 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

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. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Initial recognition and measurement (Continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Financial assets designated at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

IMPAIRMENT OF FINANCIAL ASSETS

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (Continued)

General approach (Continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, and loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, derivative financial instruments and interest-bearing bank loans and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES (Continued)

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank loans and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Put option over non-controlling interests

During the process of acquiring the majority equity interests of subsidiaries, the Group provides the non-controlling shareholder with the right to dispose of its equity interests to the Group. The equity interests in the subsidiaries held by the non-controlling shareholder shall be recognised as non-controlling interests in the consolidated financial statements of the Group. At the same time, for the put option, the Group shall assume the obligations to redeem in cash the equity interests in the subsidiaries held by the non-controlling shareholder. The present value of the amount payable at the time of redemption of such put option shall be deducted from equity (other than non-controlling interests) and is recognised as a financial liability of the Group. Such financial liability shall be re-measured at the present value of the amount payable upon redemption in the subsequent period, with changes recognised in the consolidated statement of profit or loss.

DERECOGNITION OF FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

Initial recognition and subsequent measurement (Continued)

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

The Group provides for warranties in relation to the sale of certain products for general repair of defected occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the policy for revenue recognition.

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX (Continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Some contracts for the sale of goods provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (Continued)

Revenue from contracts with customers (Continued)

(a) Sale of goods (Continued)

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price.

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(b) Rendering of testing services

Revenue from the rendering of testing services is recognised at the point in time when the service is rendered.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONTRACT LIABILITIES

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

SHARE-BASED PAYMENTS

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SHARE-BASED PAYMENTS (Continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

OTHER EMPLOYEE BENEFITS

Retirement benefits

Pursuant to the relevant regulations, the Group's subsidiaries which operate in Mainland China participate in a local municipal government retirement benefit scheme, whereby the Group is required to contribute a certain percentage of the basic salaries of their employees to the scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the scheme is to pay the ongoing required contributions under the scheme mentioned above. Contributions under the scheme are charged to the statement of profit or loss as incurred. There are no provisions under the scheme whereby forfeited contributions may be used to reduce future contributions.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group's U.S. operations and most other non-U.S. subsidiaries have separate defined contribution plans. The purpose of these defined contribution plans is generally to provide additional financial security during retirement by providing employees with an incentive to make regular savings. The Group's contributions to the plans are based on employee contributions or compensation.

Defined benefit plans

The Group operates defined benefit pension plans with details summarised in note 28. The costs of providing benefits under the defined benefit plans are determined using the projected unit credit actuarial valuation method.

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31 DECEMBER 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER EMPLOYEE BENEFITS (Continued)

Defined benefit plans (Continued)

Remeasurements arising from defined benefit plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to the consolidated profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

FOREIGN CURRENCIES

These financial statements are presented in HK$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES (Continued)

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and a joint venture are currencies other than the HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HK$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the cumulative exchange realignment. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and a joint venture are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and a joint venture which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

ESTIMATION UNCERTAINTY

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 are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose suitable discount rates in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2019 was approximately HK$2,637,062,000 (2018: HK$2,682,108,000). Further details are given in note 16.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

ESTIMATION UNCERTAINTY (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2019 was HK$31,713,000 (2018: HK$50,893,000). The amount of unrecognised tax losses at 31 December 2019 was Nil (2018: HK$28,186,000). Details of unrecognised tax losses as at the end of the reporting period are contained in note 29.

Write-down of inventories

The Group's inventories are stated at the lower of cost and net realisable value. The Group writes down its inventories based on estimates of the realisable value with reference to the age and conditions of the inventories, together with the economic circumstances on the marketability of such inventories. Inventories will be reviewed annually for write-down, if appropriate.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

ESTIMATION UNCERTAINTY (Continued)

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each of the year based on changes in circumstances. Further details of the property, plant and equipment are set out in note 14 to the consolidated financial statements.

Provisions

Provisions for product warranties granted by the Group on its products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

The Group also makes provision for product liabilities which is based on estimated future costs to be incurred in claims. There are significant estimates included in the projection, which are the discount rate used and assessment on the possibility of outcome of the claims based on historical experience.

Defined benefit plans

The Group operates and maintains defined retirement benefit plans. The cost of providing the benefits in the defined retirement benefit plans is actuarially determined by utilising various actuarial assumptions and using the projected unit credit method. These assumptions include, without limitation, the selection of discount rates and healthcare trend rates.

Additional information regarding the retirement benefit plan is disclosed in note 28 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) Strollers and accessories segment, which engages in the research, design, manufacture and sale of strollers and accessories under the Group's own brands and third parties' brands;

(b) Car seats and accessories segment, which engages in the research, design, manufacture and sale of car seats and accessories under the Group's own brands and third parties' brands;

(c) Non-durable products segment, which includes maternity and baby-care products and apparel and home textile products; and

(d) Others segment, which engages in the research, design, manufacture and sale of other children's products under the Group's own brands and third parties' brands.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment revenue.

Year ended 31 December 2019

	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Consolidated
	(HK$'000)				
Segment revenue					
Sales to external customers	2,935,935	2,828,966	1,599,413	1,412,828	8,777,142
Segment results	**1,333,265**	**1,247,033**	**763,044**	**437,316**	**3,780,658**
Reconciliation:					
Other income and gains					74,116
Corporate and other unallocated expenses					(3,445,295)
Other expenses					(19,544)
Finance income					4,543
Finance costs					(141,856)
Share of profits and losses of joint ventures					339
Share of profits and losses of an associate					(131)
Profit before tax					**252,830**
Other segment information:					
Impairment losses recognised in the statement of profit or loss, net	6,992	15,580	631	684	23,887
Depreciation and amortisation	154,963	146,299	53,254	57,208	411,724

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018

	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Consolidated
	(HK$'000)				
Segment revenue					
Sales to external customers	2,743,317	2,720,232	1,574,715	1,590,851	8,629,115
Segment results	**1,206,707**	**1,244,668**	**763,943**	**446,015**	**3,661,333**
Reconciliation:					
Other income and gains					98,303
Corporate and other unallocated expenses					(3,416,008)
Other expenses					(16,803)
Finance income					3,867
Finance costs					(123,576)
Share of profits and losses of joint ventures					407
Profit before tax					**207,523**
Other segment information:					
Impairment losses recognised in the statement of profit or loss	5,856	6,444	639	3,134	16,073
Depreciation and amortisation	108,984	96,726	35,033	49,810	290,553

4. OPERATING SEGMENT INFORMATION (Continued)

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	European market	North America market	Mainland China market	Other overseas markets	Total
	(HK$'000)				
Year ended 31 December 2019					
Segment revenue:					
Sales to external customers	2,374,257	2,866,112	3,106,392	430,381	8,777,142
Year ended 31 December 2018					
Segment revenue:					
Sales to external customers	2,171,256	2,720,492	3,142,165	595,202	8,629,115

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019	2018
	(HK$'000)	
Mainland China	4,164,959	4,156,043
North America	1,057,290	1,015,832
Europe	956,475	880,694
	6,178,724	**6,052,569**

The non-current asset information above is based on the locations of the assets excluding financial instruments, deferred tax assets, investments in joint ventures and investments in an associate.

INFORMATION ABOUT A MAJOR CUSTOMER

Revenue of approximately HK$862,681,000 (2018: HK$994,197,000) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019	2018
	(HK$'000)	
Revenue from contracts with customers		
Sale of goods	8,751,553	8,612,735
Rendering of testing services	25,589	16,380
	8,777,142	8,629,115

REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Total
	HK$'000				
Type of goods or services					
Sale of goods	2,935,935	2,828,966	1,599,413	1,387,239	8,751,553
Rendering of testing services	–	–	–	25,589	25,589
Total revenue from contracts with customers	2,935,935	2,828,966	1,599,413	1,412,828	8,777,142
Timing of revenue recognition					
Goods transferred at a point in time	2,935,935	2,828,966	1,599,413	1,387,239	8,751,553
Services transferred at a point in time	–	–	–	25,589	25,589
Total revenue from contracts with customers	2,935,935	2,828,966	1,599,413	1,412,828	8,777,142
Revenue from contracts with customers					
External customers	2,935,935	2,828,966	1,599,413	1,412,828	8,777,142

5. REVENUE, OTHER INCOME AND GAINS (Continued)

REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

(i) Disaggregated revenue information (Continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019	2018
	(HK$'000)	
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	93,746	149,009
Rendering of testing services	–	42
Total	93,746	149,051

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of goods and payment is generally due with 90 days from delivery.

Rendering of testing services

The performance obligation is satisfied upon completion of service and short-term advances are normally required before rendering the services.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially satisfied) as at 31 December 2019 are as follows:

	2019	2018
	(HK$'000)	
Amounts expected to be recognised as revenue:		
Within one year	135,885	108,235

All the remaining performance obligations are expected to be recognised within one year.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

5. REVENUE, OTHER INCOME AND GAINS (Continued)

	2019	2018
	(HK$'000)	
Other income and gains:		
Government grants (note (a))	62,109	75,688
Gain on sale of materials	–	9,320
Gain on wealth investment products (note (b))	2,853	407
Compensation income (note (c))	3,964	7,137
Foreign exchange differences, net	–	611
Fair value (losses)/gains, net		
Cash flow hedges (transfer from equity)	–	(723)
Derivative instruments – transactions not qualifying as hedges	–	3,680
Gains on call/put options over non-controlling interests	3,436	–
Others	1,754	2,183
Total	**74,116**	**98,303**

Note (a): The amount represents subsidies received from local government authorities in connection with certain financial support to local business enterprises. These government subsidies mainly comprised subsidies for export activities, subsidies for development, and other miscellaneous subsidies and incentives for various purposes.

Note (b): The amount represents the gain on disposal of wealth investment products.

Note (c): The amount represents the compensation received from customers as a result of cancellation of orders and suppliers as a result of defective products, early payment or shipment delay in the normal course of business.

6. FINANCE INCOME

	2019	2018
	(HK$'000)	
Interest income on bank deposits	**4,543**	**3,867**

7. FINANCE COSTS

	2019	2018
	(HK$'000)	
Interest on bank loans, overdrafts and other loans	130,323	123,576
Interest on lease liabilities	11,533	–
	141,856	**123,576**

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019	2018
	(HK$'000)	
Cost of inventories sold	4,986,650	4,960,648
Cost of services provided	9,834	7,134
Depreciation of property, plant and equipment	266,015	234,739
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	95,236	2,142
Amortisation of intangible assets	50,473	53,672
Lease payments not included in the measurement of lease liabilities	60,465	–
Research and development costs ("R&D")	345,649	366,258
Lease payments under operating leases in respect of properties	–	149,318
Auditors' remuneration	9,788	9,823
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	1,623,155	1,666,617
Pension scheme contributions	96,815	99,785
Pension scheme costs (defined benefit plans)(including administrative expense)	1,340	2,631
Share option expense	44,660	34,239
	1,765,970	1,803,272
Net foreign exchange loss/(gain)	9	(611)
Impairment of trade receivables	10,119	22,515
Write-down/(reversal) of inventories	13,768	(6,442)
Product warranties and liabilities	38,601	37,368
Fair value losses, net:		
Cash flow hedges (transfer from equity)	323	723
Derivative instruments – transactions not qualifying as hedges	–	(3,680)
Loss on disposal of items of property, plant and equipment	9,462	12,718
Bank interest income	(4,543)	(3,867)

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

9. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019	2018
	(HK$'000)	
Fees	3,696	3,747
Other emoluments:		
Salaries, allowances and benefits in kind	27,017	29,193
Performance-related bonuses	1,331	1,308
Equity-settled share option expenses	30,003	18,208
Pension scheme contributions	294	283
	58,645	48,992
	62,341	52,739

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to independent non-executive directors during the year were as follows:

	2019	2018
	(HK$'000)	
Iain Ferguson Bruce	470	470
Shi Xiaoguang	313	314
Chiang Yun	313	314
Jin Peng	235	235
	1,331	**1,333**

There were no other emoluments payable to the independent non-executive directors in 2019 (2018: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

2019

	Fees	Salaries, allowances and benefits in kind	Performance – related bonuses	Equity-settled share option expenses	Pension scheme contributions	Total remuneration
	(HK$'000)					
Executive directors:						
Song Zhenghuan	–	3,396	–	70	–	3,466
Michael, Qu Nan	–	3,257	499	581	66	4,403
Martin Pos	–	12,642	–	18,050	–	30,692
Liu Tongyou	–	3,886	–	701	114	4,701
Xia Xinyue	–	3,836	832	10,245	114	15,027
	–	**27,017**	**1,331**	**29,647**	**294**	**58,289**
Non-executive directors:						
Eric, Ho Kwok Yin	666	–	–	226	–	892
Fu Jinqiu	1,699	–	–	130	–	1,829
	2,365	**–**	**–**	**356**	**–**	**2,721**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

9. DIRECTORS' REMUNERATION (Continued)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS (Continued)

2018

	Fees	Salaries, allowances and benefits in kind	Performance – related bonuses	Equity-settled share option expenses	Pension scheme contributions	Total remuneration
	(HK$'000)					
Executive directors:						
Song Zhenghuan	–	3,713	–	181	–	3,894
Michael, Qu Nan	–	3,199	588	312	61	4,160
Martin Pos	–	13,321	–	11,020	–	24,341
Liu Tongyou	–	3,233	–	312	111	3,656
Yang Ilcheul*	–	1,726	–	–	–	1,726
Xia Xinyue	–	4,001	720	6,119	111	10,951
	–	**29,193**	**1,308**	**17,944**	**283**	**48,728**
Non-executive directors:						
Eric, Ho Kwok Yin	666	–	–	264	–	930
Fu Jinqiu	1,748	–	–	–	–	1,748
	2,414	**–**	**–**	**264**	**–**	**2,678**

* Mr. Yang Ilcheul has tendered his resignation as executive director with effect from 7 November 2018.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2018: four), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2018: one) non-director, highest paid employee for the year are as follows:

	2019	2018
	(HK$'000)	
Salaries, allowances and benefits in kind	3,380	3,423
Performance related bonuses	1,800	–
Pension scheme contributions	105	110
	5,285	**3,533**

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2019	2018
HK$3,500,001 to HK$4,000,000	–	1
HK$5,000,001 to HK$5,500,000	1	–
	1	**1**

None of the directors or highest paid employees was paid by the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2018: None).

NOTES TO FINANCIAL STATEMENTS

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11. INCOME TAX

The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands, respectively, ("BVI") are exempted from taxation.

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2018: HK$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

State income tax and federal income tax of the Group's subsidiary in the United States have been provided for at the rates of state income tax and federal income tax on the estimated assessable profits of the subsidiary during the year. The state income tax rates are 5% to 9.99% in the respective states in which the subsidiary operates, and the federal income tax rate was lowered to 21% effective from 1 January 2018, as a result of U.S. tax reform enacted in December 2017.

The Group's subsidiary registered in Japan is subject to income tax based on the taxable income at rates ranging from 15% to 23.2% on a progressive basis.

The Group's subsidiaries registered in Germany are subject to corporation tax based on the taxable income at the rate of 15.825% and trade income tax on the taxable income at rates ranging from 12.95% to 17%.

The Group's subsidiaries registered in Denmark are subject to income tax based on the taxable income at the rate of 22%.

The Group's subsidiary registered in the Czech Republic is subject to income tax based on the taxable income at the rate of 19%.

All of the Group's subsidiaries registered in the People's Republic of China (the "PRC"), which only have operations in Mainland China, are subject to PRC enterprise income tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws, at the rate of 25%.

Pursuant to relevant tax rules under the EIT Law and with the approval from the relevant tax authorities in the PRC, one of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC") is qualified as a "High and New Technology Enterprise" and is entitled to a preferential tax rate of 15% from 2017 to 2019.

11. INCOME TAX (Continued)

The major components of income tax (credit)/expense of the Group are as follows:

	2019	2018
	(HK$'000)	
Current – income tax		
Charge for the year	48,207	87,065
Deferred income tax (note 29)	2,055	(46,373)
Income tax expense reported in the statement of profit or loss	50,262	40,692

A reconciliation of the tax expense applicable to profit before tax at the statutory rates to the tax expense at the effective tax rates for the year is as follows:

	2019	2018
	(HK$'000)	
Profit before tax	252,830	207,523
Expected income tax based on different rates applicable to profits in the countries covered	56,360	56,921
Effect of tax losses not recognised	–	4,651
Temporary difference for which deferred tax assets have not been recognised	–	250
Recognition of deferred tax assets related to previously unrecognised deductible temporary differences and tax losses	(4,901)	(5,930)
Tax credit arising from additional deduction of R&D expenditures of PRC subsidiaries	(14,710)	(25,630)
Tax effect on non-taxable income	(670)	(7,819)
Tax effect on non-deductible expenses	14,183	18,249
Income tax expense	50,262	40,692

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12. DIVIDENDS

The Board did not recommend the payment of any dividend for the years ended 31 December 2019 and 2018.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,668,023,166 in issue during the year (2018: 1,667,513,287).

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2019.

The calculation of earnings per share is based on:

	2019	2018
	(HK$'000)	
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**202,194**	**163,764**

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,668,023,166	1,667,513,287
Effect of dilution – weighted average number of ordinary shares:		
Share options	–*	2,273,145
Total	1,668,023,166	1,669,786,432

* No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2019 in respect of a dilution as the exercise prices of the Company's outstanding share options were higher than the average market prices for the Company's shares during the current year.

14. PROPERTY, PLANT AND EQUIPMENT

31 DECEMBER 2019

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
				(HK$'000)			
At 31 December 2018 and at 1 January 2019:							
Cost	567,552	1,091,414	24,250	445,748	173,478	97,625	2,400,067
Accumulated depreciation	(298,768)	(600,961)	(11,947)	(319,768)	(90,837)	–	(1,322,281)
Net carrying amount	**268,784**	**490,453**	**12,303**	**125,980**	**82,641**	**97,625**	**1,077,786**
At 1 January 2019, net of accumulated depreciation	268,784	490,453	12,303	125,980	82,641	97,625	1,077,786
Additions	30,205	60,211	627	57,365	46,035	95,044	289,487
Disposals	(7,056)	(13,847)	(929)	(1,821)	–	(888)	(24,541)
Depreciation provided during the year	(33,315)	(134,644)	(2,154)	(55,253)	(40,649)	–	(266,015)
Transfers	21,442	77,025	125	15,097	2,216	(115,905)	–
Exchange realignment	(4,286)	(6,849)	(203)	(2,319)	(2,097)	(1,391)	(17,145)
At 31 December 2019, net of accumulated depreciation and impairment	**275,774**	**472,349**	**9,769**	**139,049**	**88,146**	**74,485**	**1,059,572**
At 31 December 2019:							
Cost	595,032	1,167,878	23,442	501,392	182,629	74,485	2,544,858
Accumulated depreciation and impairment	(319,258)	(695,529)	(13,673)	(362,343)	(94,483)	–	(1,485,286)
Net carrying amount	**275,774**	**472,349**	**9,769**	**139,049**	**88,146**	**74,485**	**1,059,572**

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31 DECEMBER 2019

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

31 DECEMBER 2018

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
				(HK$'000)			
At 31 December 2017 and at 1 January 2018:							
Cost	586,471	972,755	16,282	416,196	128,956	95,161	2,215,821
Accumulated depreciation	(290,964)	(536,092)	(9,757)	(284,651)	(53,614)	–	(1,175,078)
Net carrying amount	**295,507**	**436,663**	**6,525**	**131,545**	**75,342**	**95,161**	**1,040,743**
At 1 January 2018, net of accumulated depreciation	295,507	436,663	6,525	131,545	75,342	95,161	1,040,743
Additions	37,811	117,069	8,815	54,408	54,237	103,740	376,080
Disposals	(40,472)	(17,297)	(273)	(1,849)	–	(56)	(59,947)
Depreciation provided during the year	(24,571)	(107,758)	(2,303)	(56,821)	(43,286)	–	(234,739)
Transfers	12,462	80,735	–	3,592	685	(97,474)	–
Exchange realignment	(11,953)	(18,959)	(461)	(4,895)	(4,337)	(3,746)	(44,351)
At 31 December 2018, net of accumulated depreciation and impairment	**268,784**	**490,453**	**12,303**	**125,980**	**82,641**	**97,625**	**1,077,786**
At 31 December 2018:							
Cost	567,552	1,091,414	24,250	445,748	173,478	97,625	2,400,067
Accumulated depreciation and impairment	(298,768)	(600,961)	(11,947)	(319,768)	(90,837)	–	(1,322,281)
Net carrying amount	**268,784**	**490,453**	**12,303**	**125,980**	**82,641**	**97,625**	**1,077,786**

At 31 December 2019, certain of the Group's machinery with a net carrying amount of approximately HK$17,346,000 (2018: Nil) were pledged to secure bank loan granted to the Group (note 27).

15. LEASES

THE GROUP AS A LESSEE

The Group has lease contracts for various items of plant and machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 10 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and machinery generally have lease terms between 3 and 6 years. Buildings generally have lease term between 1 and 10 years. Furniture and fixtures generally have lease terms between 2 and 5 years, while motor vehicles generally have lease terms between 1 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(A) PREPAID LAND LEASE PAYMENTS (BEFORE 1 JANUARY 2019)

	(HK$'000)
Carrying amount at 1 January 2018	55,740
Amortisation	(2,142)
Exchange realignment	(2,673)
Carrying amount at 31 December 2018	**50,925**

(B) RIGHT-OF-USE ASSETS

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments	Buildings	Plant and machinery	Motor vehicles	Furniture and fixtures	Total
	(HK$'000)					
As at 1 January 2019	50,925	208,899	3,206	10,197	804	274,031
Additions	–	114,901	144	8,106	42	123,193
Depreciation charge	(2,066)	(85,374)	(1,034)	(6,422)	(340)	(95,236)
Exchange realignment	(910)	(4,275)	(14)	(287)	(22)	(5,508)
As at 31 December 2019	**47,949**	**234,151**	**2,302**	**11,594**	**484**	**296,480**

NOTES TO FINANCIAL STATEMENTS

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15. LEASES (Continued)

(C) LEASE LIABILITIES

The amounts recognised in profit or loss in relation to leases are as follows:

	2019 (HK$'000)
Carrying amount at 1 January 2019	220,483
New leases	123,193
Exchange realignment	(4,667)
Interest expense	11,533
Payments	(95,346)
Carrying amount at 31 December 2019	255,196
Analysed into:	
Current portion	98,388
Non-current portion	156,808

(D) THE AMOUNTS RECOGNISED IN PROFIT OR LOSS IN RELATION TO LEASES ARE AS FOLLOWS:

	2019 (HK$'000)
Interest on lease liabilities	11,533
Depreciation charge of right-of-use assets	95,236
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	60,353
Variable lease payments not included in the measurement of lease liabilities	79
Expense relating to leases of low-value assets	33
At end of year	167,234

(E) The total cash outflow for leases is disclosed in note 34(c) to the financial statements.

16. GOODWILL

	(HK$'000)
Cost and net carrying amount at 1 January 2018	2,789,325
Acquisition of subsidiaries	–
Exchange realignment	(107,217)
Cost and net carrying amount at 31 December 2018 and 1 January 2019	2,682,108
Acquisition of subsidiaries	–
Exchange realignment	(45,046)
Cost and net carrying amount at 31 December 2019	**2,637,062**

IMPAIRMENT TESTING OF CASH-GENERATING UNITS ("CGU")

Goodwill is allocated to the following CGU for impairment testing:

	2019	2018
	(HK$'000)	
Manufacture and export of stroller-related products unit	13,975	14,249
Evenflo unit	613,569	617,233
Columbus unit	194,641	200,222
NICAM unit	5,255	5,406
Oasis Dragon unit	1,809,622	1,844,998
	2,637,062	2,682,108

Trademarks with indefinite useful lives are allocated to the following CGU for impairment testing:

	2019	2018
	(HK$'000)	
Evenflo unit	137,551	138,372
Columbus unit	343,854	353,714
Oasis Dragon unit	1,171,204	1,194,100
	1,652,609	1,686,186

NOTES TO FINANCIAL STATEMENTS

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16. GOODWILL (Continued)

IMPAIRMENT TESTING OF CGU (Continued)

Manufacture and export of stroller-related products unit

The recoverable amount of the manufacture and export of stroller-related products unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of manufacture and export of stroller-related products unit beyond the five-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2019 was 16.3% (2018: 16.9%).

Evenflo unit

The recoverable amount of the Evenflo unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of the Evenflo unit beyond the five-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2019 was 12.1% (2018: 11.9%).

Columbus unit

The recoverable amount of the Columbus unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of Columbus unit beyond the five-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2019 was 15.0% (2018: 14.8%).

NICAM unit

The recoverable amount of the NICAM unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of NICAM unit beyond the five-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2019 was 14.8% (2018: 14.6%).

16. GOODWILL (Continued)

IMPAIRMENT TESTING OF CGU (Continued)

Oasis Dragon unit

The recoverable amount of the Oasis Dragon unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a four-year period approved by senior management. The growth rate used to extrapolate the cash flows of Oasis Dragon unit beyond the four-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2019 was 14.4% (2018: 14.7%).

KEY ASSUMPTIONS USED IN THE VALUE IN USE CALCULATION

Assumptions were used in the value in use calculation of the above cash-generating units for each reporting date. The following describes each key assumption on which senior management has based its cash flow projections to undertake impairment testing of goodwill:

"Budgeted gross margins"	—	The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.
"Discount rate"	—	The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

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17. OTHER INTANGIBLE ASSETS

31 DECEMBER 2019

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2018 and at 1 January 2019:						
Cost	1,727,428	56,028	7,360	548,193	71,150	2,410,159
Accumulated amortisation	(29,197)	(34,531)	(6,898)	(75,789)	(25,705)	(172,120)
Net carrying amount	**1,698,231**	**21,497**	**462**	**472,404**	**45,445**	**2,238,039**
At 1 January 2019, net of accumulated amortisation	1,698,231	21,497	462	472,404	45,445	2,238,039
Additions	3,704	26,783	–	–	820	31,307
Disposals	–	–	–	–	–	–
Amortisation provided during the year	(1,795)	(7,765)	(384)	(36,073)	(4,456)	(50,473)
Exchange realignment	(32,307)	(127)	(6)	(7,421)	(1,511)	(41,372)
At 31 December 2019, net of accumulated depreciation	**1,667,833**	**40,388**	**72**	**428,910**	**40,298**	**2,177,501**
At 31 December 2019:						
Cost	1,697,555	84,098	7,178	538,144	69,995	2,396,970
Accumulated amortisation	(29,722)	(43,710)	(7,106)	(109,234)	(29,697)	(219,469)
Net carrying amount	**1,667,833**	**40,388**	**72**	**428,910**	**40,298**	**2,177,501**

17. OTHER INTANGIBLE ASSETS (Continued)

31 DECEMBER 2018

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2017 and at 1 January 2018:						
Cost	1,808,445	45,645	7,673	565,177	71,450	2,498,390
Accumulated amortisation	(29,919)	(30,622)	(5,538)	(41,235)	(19,877)	(127,191)
Net carrying amount	**1,778,526**	**15,023**	**2,135**	**523,942**	**51,573**	**2,371,199**
At 1 January 2018, net of accumulated amortisation	1,778,526	15,023	2,135	523,942	51,573	2,371,199
Additions	1,166	15,402	–	7,139	1,103	24,810
Disposals	–	(49)	–	–	–	(49)
Amortisation provided during the year	(2,061)	(7,350)	(1,633)	(36,908)	(5,720)	(53,672)
Exchange realignment	(79,400)	(1,529)	(40)	(21,769)	(1,511)	(104,249)
At 31 December 2018, net of accumulated depreciation	**1,698,231**	**21,497**	**462**	**472,404**	**45,445**	**2,238,039**
At 31 December 2018:						
Cost	1,727,428	56,028	7,360	548,193	71,150	2,410,159
Accumulated amortisation	(29,197)	(34,531)	(6,898)	(75,789)	(25,705)	(172,120)
Net carrying amount	**1,698,231**	**21,497**	**462**	**472,404**	**45,445**	**2,238,039**

18. OTHER LONG-TERM ASSETS

Other long-term assets represent call options over non-controlling interests of HK$672,000 (2018: HK$4,287,000) arising from the acquisition of subsidiaries and a deposit for insurance over one year of HK$8,109,000 (2018: HK$3,712,000).

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19. INVENTORIES

	2019	2018
	(HK$'000)	
Raw materials	330,609	377,660
Work in progress	47,840	59,007
Finished goods	1,576,022	1,507,310
	1,954,471	1,943,977

20. TRADE AND NOTES RECEIVABLES

	2019	2018
	(HK$'000)	
Trade receivables	1,100,028	1,130,128
Notes receivable	3,770	4,443
	1,103,798	1,134,571
Impairment of the trade receivables	(28,164)	(37,531)
	1,075,634	1,097,040

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is up to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

20. TRADE AND NOTES RECEIVABLES (Continued)

The Group's notes receivable were all aged within six months and were neither past due nor impaired.

An aging analysis of the trade receivables of the Group, based on the invoice date net of provision, is as follows:

	2019	2018
	(HK$'000)	
Within 3 months	1,003,174	1,025,437
3 to 6 months	45,694	41,173
6 months to 1 year	12,296	4,487
Over 1 year	10,700	21,500
	1,071,864	1,092,597

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019	2018
	(HK$'000)	
At beginning of year	37,531	43,694
Impairment losses, net	10,119	22,515
Amounts written off as uncollectible	(19,946)	(29,366)
Exchange realignment	460	688
At end of year	**28,164**	**37,531**

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

NOTES TO FINANCIAL STATEMENTS

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20. TRADE AND NOTES RECEIVABLES (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

AS AT 31 DECEMBER 2019

	Within 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Expected credit loss rate	0.12%	0.16%	50.20%	57.48%	2.56%
Gross carrying amount (HK$'000)	1,004,406	45,765	24,692	25,165	1,100,028
Expected credit losses (HK$'000)	**1,232**	**71**	**12,396**	**14,465**	**28,164**

AS AT 31 DECEMBER 2018

	Within 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
			(HK$'000)		
Expected credit loss rate	0.00%	2.25%	30.84%	61.63%	3.32%
Gross carrying amount (HK$'000)	1,025,480	42,121	6,487	56,040	1,130,128
Expected credit losses (HK$'000)	**43**	**948**	**2,000**	**34,540**	**37,531**

21. PREPAYMENTS AND OTHER RECEIVABLES

	2019	2018
	(HK$'000)	
Prepayments	110,715	115,451
Other receivables	330,617	303,536
	441,332	418,987

The above balances are unsecured, interest-free and have no fixed terms of repayment.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

22. CASH AND CASH EQUIVALENTS

	2019	2018
	(HK$'000)	
Cash and bank balances	1,078,646	930,399
Less: Time deposits	–	(3,447)
Pledged deposits	(24,031)	–
Cash and cash equivalents	**1,054,615**	**926,952**
Denominated in US$	209,808	242,526
Denominated in RMB	619,353	477,175
Denominated in EUR	182,458	169,188
Denominated in HK$	13,780	4,569
Denominated in other currencies	53,247	36,941
Cash and bank balances	**1,078,646**	**930,399**

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2019	
	Assets	Liabilities
	(HK$'000)	
Forward currency contracts		
– designated as hedging instruments	6,334	4,571

	2018	
	Assets	Liabilities
	(HK$'000)	
Forward currency contracts		
– designated as hedging instruments	2,987	1,058

CASH FLOW HEDGE – FOREIGN CURRENCY RISK

Forward currency contracts are designated as hedging instruments in respect of forecasted routine intragroup sales in foreign currencies. The forward currency contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the forecasted sales and purchases and the hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

23. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Group holds the following foreign exchange forward contracts:

	Maturity					
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	Total
As at 31 December 2019						
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	276,370	76,524	34,150	57,043	–	444,087
Average forward rate (US$/RMB)	7.0220	7.0844	7.0537	7.0663	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	79,699	–	–	–	–	79,699
Average forward rate (EUR/RMB)	8.0480	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	35,141	–	–	–	–	35,141
Average forward rate (PLN/EUR)	0.2319	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	25,260	26,180	29,349	29,555	8,079	118,423
Average forward rate (GBP/EUR)	1.1352	1.1486	1.1427	1.1432	1.1391	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	17,928	6,179	–	–	–	24,107
Average forward rate (JPY/EUR)	0.0080	0.0082	–	–	–	

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23. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amounts	Carrying amounts	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year
	(HK$'000)			(HK$'000)
As at 31 December 2019				
Foreign currency forward contracts	523,786	6,334	Derivative financial instruments (assets)	6,334
Foreign currency forward contracts	177,671	(4,571)	Derivative financial instruments (liabilities)	(4,571)

The impacts of the hedged items on the statement of financial position are as follows:

	Change in fair value used for measuring hedge ineffectiveness for the year	Hedging reserve
	(HK$'000)	
As at 31 December 2019		
Highly probable forecast sales	2,134	(371)

The effects of the cash flow hedge on the statement of profit or loss and the statement of comprehensive income are as follows:

	Total hedging gains/(losses) recognised in other comprehensive income			Line item in the statement of profit or loss	Amounts reclassified from other comprehensive income to profit or loss			Line item (gross amount) in the statement of profit or loss
	Gross amounts	Tax effects	Total		Gross amounts	Tax effects	Total	
	(HK$'000)				(HK$'000)			
As at 31 December 2019								
Highly probable forecast sales	3,794	(589)	3,205	Other income and gains	(2,341)	371	(1,970)	Revenue

24. TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019	2018
	(HK$'000)	
Within 3 months	1,125,977	1,269,572
3 to 12 months	189,929	160,124
1 to 2 years	5,839	8,301
2 to 3 years	2,051	1,265
Over 3 years	566	112
	1,324,362	**1,439,374**

The trade and bills payables are non-interest-bearing and normally settled on terms of 60 to 90 days.

25. OTHER PAYABLES AND ACCRUALS

		2019	2018
		(HK$'000)	
Other payables	(a)	208,341	185,708
Contract liabilities	(b)	135,885	108,235
Accruals		463,932	466,623
		808,158	**760,566**

(a) Other payables are non-interest-bearing and repayable on demand.

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25. OTHER PAYABLES AND ACCRUALS (Continued)

(b) Details of contract liabilities are as follows:

	31 December 2019	31 December 2018
	(HK$'000)	
Short-term advances from customers		
Sale of goods	135,712	108,235
Rendering of testing services	173	–
	135,885	**108,235**

Contract liabilities include short-term advances received to deliver goods and render testing services. The increase in contract liabilities in 2019 was mainly due to the increase in short-term advances from customers in relation to the sale of goods.

26. PROVISION

	Product warranties and liabilities
	(HK$'000)
Balance at 1 January 2018	93,917
Additional provision	37,678
Amounts utilised	(48,492)
Exchange realignment	(673)
Balance at 31 December 2018 and 1 January 2019	82,430
Additional provision	38,601
Amounts utilised	(34,390)
Exchange realignment	(732)
Balance at 31 December 2019	85,909
Portion classified as current liabilities	35,552
Non-current portion	50,357

The Group provides warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. As at 31 December 2019, the amount of product warranties was HK$15,888,000.

26. PROVISION (Continued)

In addition, the Group estimates future cash outflows in relation to the indemnity provided to its customers for damages or injuries caused in connection with the use of the Group's sold products. The amount of cash outflows is estimated based upon an annual review by the management of the Group with patterns of past experience of how the Group discharged its obligation. As at 31 December 2019, the amount of product liabilities was HK$70,021,000.

27. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

		As at 31 December 2019		As at 31 December 2018	
		Maturity	HK$'000	Maturity	HK$'000
Current					
Bank overdrafts – secured	Note (a)	2020	293,351	2019	155,693
Bank overdrafts – unsecured	Note (a)	2020	3,020		–
Current portion of long-term bank loans – secured	Note (b)	2020	256,320	2019	223,654
Bank borrowings – secured	Note (b)	2020	338,283	2019	450,458
Promissory note	Note (c)	2020	1,246	2019	1,252
Bank borrowings – unsecured			–	2019	56,405
			892,220		887,462
Non-current					
Bank borrowings – secured	Note (b)	2021-2023	1,860,903	2020-2022	1,888,475
Promissory note	Note (c)	2021-2022	623	2021	1,253
			1,861,526		**1,889,728**
Total			**2,753,746**		**2,777,190**

Note (a): The bank overdraft facilities amounted to HK$395,602,000, of which HK$296,371,000 had been utilised as at the end of the reporting period. The bank overdraft facilities are revolving facilities with no termination date.

Note (b): As at 31 December 2019, certain of the Group's bank loans are secured by:

(i) a standby letter of credit from certain banks issued by a subsidiary of the Group;

(ii) the guarantee from the Company; and

(iii) certain machinery amounting to HK$17,346,000.

As at 31 December 2018, certain of the Group's bank loans are secured by:

(i) the pledge of shares of certain Group's subsidiaries;

(ii) a standby letter of credit from the Bank of China Suzhou branch issued by a subsidiary of the Group; and

(iii) the guarantee from the Company.

Note (c): The promissory note was issued by the US government authority.

Note (d): The effective interest rates of the bank loans and other borrowings range from 0.80% to 6% (2018: 0.60% to 6%).

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27. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

	Group	
	2019	2018
	(HK$'000)	
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year	892,220	887,462
In the second year	1,306,738	489,818
In the third to fifth years, inclusive	554,788	1,399,910
	2,753,746	**2,777,190**

28. DEFINED BENEFIT PLAN LIABILITIES

(1) ERA PLAN

The Group operates a defined benefit plan named the Evenflo Retirement Account plan ("ERA Plan") in the United States. This non-contributory ERA Plan was frozen with effect from 31 August 2002 and no further benefit credits were earned after 31 July 2002. No new employees have been added to the ERA Plan since this date. For benefits earned prior to this date, the plan provides employees with pension benefits that are either based on age and compensation or are based on stated amounts for each year of service.

The ERA Plan is a final salary plan, which requires contributions to be made to a separately administered fund. The plan has the legal form of a foundation and it is administrated by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. This includes employing the use of annuities and longevity swaps to manage the risks. The trustees decide the contribution based on the results of the annual review. The investment portfolio targets a mix of 60-65% in equity and property and 35-40% in debt instruments.

The plan is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

The ERA plan was terminated in March 2019.

28. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The principal actuarial assumption used as at the end of the reporting period is as follows:

	2019	2018
Discount rate (%)	0.00%	4.00%

The defined benefit pension plan was terminated during 2019. All assets were distributed in the settlement of obligations and the pension trust was closed.

A quantitative sensitivity analysis for the significant assumption as at the end of the reporting period is shown below:

	Increase in rate	Increase/ (decrease) in defined benefit obligations	Decrease in rate	Increase/ (decrease) in defined benefit obligations
	%	(HK$'000)	%	(HK$'000)
2019				
Discount rate	–	–	–	–
2018				
Discount rate	0.5	(2,289)	0.5	2,470

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in the key assumption occurring at the end of the reporting period.

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2019	2018
	(HK$'000)	
Interest cost	24	149
Past service cost	–	–
Net benefit expenses	24	149
Administrative expense relating to plan assets	1,089	2,595

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28. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The movements in the present value of the defined benefit obligations are as follows:

	2019	2018
	(HK$'000)	
Assets at 1 January	(60,870)	(105,594)
Interest cost	(580)	(2,799)
Remeasurement effects recognised in other comprehensive income	243	6,342
Benefit paid	3,345	5,692
Past service cost	–	–
Settlements	57,862	35,742
Exchange differences on a foreign plan	–	(253)
Liabilities at 31 December	**–**	**(60,870)**

28. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2019

		Cost (charged)/credited to profit or loss						Remeasurement gains/(losses) in other comprehensive income						
	1 January 2019	Past service cost	Administrative expense	Net interest expense/ (impairment)	Sub-total included in profit or loss	Benefit paid	Settlements	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Exchange rate difference	31 December 2019
		(HK$'000)												
Defined benefit obligations	(60,870)	–	–	(580)	(580)	3,345	57,862	–	2,421	–	(2,178)	243	–	–
Fair value of plan assets	58,935	–	(1,089)	556	(533)	(3,345)	(54,720)	(337)	–	–	–	(337)	–	–
	(1,935)	**–**	**(1,089)**	**(24)**	**(1,113)**	**–**	**3,142**	**(337)**	**2,421**	**–**	**(2,178)**	**(94)**	**–**	**–**

2018

		Cost (charged)/credited to profit or loss						Remeasurement gains/(losses) in other comprehensive income						
	1 January 2018	Past service cost	Administrative expense	Net interest expense/ (impairment)	Sub-total included in profit or loss	Benefit paid	Settlements	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	Exchange rate difference	31 December 2018
		(HK$'000)												
Defined benefit obligations	(105,594)	–	–	(2,799)	(2,799)	5,692	35,742	–	243	3,246	2,853	6,342	(253)	(60,870)
Fair value of plan assets	101,401	–	(2,595)	2,650	55	(5,692)	(35,397)	(1,670)	–	–	–	(1,670)	238	58,935
	(4,193)	**–**	**(2,595)**	**(149)**	**(2,744)**	**–**	**345**	**(1,670)**	**243**	**3,246**	**2,853**	**4,672**	**(15)**	**(1,935)**

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28. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(1) ERA PLAN (Continued)

The major categories of the fair value of the total plan assets are as follows:

	2019	2018
	(HK$'000)	
Cash and cash equivalents	–	58,935

The defined benefit pension plan was terminated during 2019. All assets were distributed in the settlement of obligations and the pension trust was closed.

(2) POST-RETIREMENT BENEFIT OBLIGATIONS

Post-retirement healthcare and life insurance benefits are provided for U.S. retired employees and their dependents. Substantially all of the Group's U.S. employees may become eligible for those benefits if they reach the normal retirement age while working for the Company. The Group does not fund retiree healthcare benefits in advance and has the right to modify these plans in the future. There have been no changes in the plan provisions in 2019.

Key assumptions used in the accounting for postretirement benefits are summarised below.

	2019	2018
Discount rate (%)	2.9	4.0
Current healthcare cost trend rate (%)	6.0	6.5
Ultimate healthcare cost trend rate (%)	5.0	5.0

28. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate	Increase/ (decrease) in defined benefit obligations	Decrease in rate	Increase/ (decrease) in defined benefit obligations
	%	(HK$'000)	%	(HK$'000)
2019				
Discount rate	0.5	(216)	0.5	232
Healthcare trend rate	1.0	132	1.0	(165)
2018				
Discount rate	0.5	(219)	0.5	235
Healthcare trend rate	1.0	157	1.0	(180)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The total expenses recognised in the consolidated statement of profit or loss in respect of the plan are as follows:

	2019	2018
	(HK$'000)	
Interest cost	227	227
Net benefit cost	**227**	**227**
Recognised in administrative expenses	**227**	**227**

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28. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

The movements in the present value of the defined benefit obligations are as follows:

	2019	2018
	(HK$'000)	
At 1 January	(6,051)	(7,247)
Interest cost	(227)	(227)
Remeasurement effects recognised in OCI	141	1,200
Benefits paid directly by the Group	259	251
Exchange differences on a foreign plan	46	(28)
At 31 December	**(5,832)**	**(6,051)**

28. DEFINED BENEFIT PLAN LIABILITIES (Continued)

(2) POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2019

	1 January 2019	Cost charged to profit or loss: Net interest expense	Cost charged to profit or loss: Sub-total included in profit or loss	Benefit paid	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in demographic assumptions	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in financial assumptions	Remeasurement gains/(losses) in other comprehensive income: Experience adjustments	Remeasurement gains/(losses) in other comprehensive income: Sub-total included in other comprehensive income	Exchange differences	31 December 2019
	(HK$'000)									
Benefit obligations	(6,051)	(227)	(227)	259	55	(447)	533	141	46	(5,832)
Benefit liabilities	**(6,051)**	**(227)**	**(227)**	**259**	**55**	**(447)**	**533**	**141**	**46**	**(5,832)**

2018

	1 January 2018	Cost charged to profit or loss: Net interest expense	Cost charged to profit or loss: Sub-total included in profit or loss	Benefit paid	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in demographic assumptions	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in financial assumptions	Remeasurement gains/(losses) in other comprehensive income: Experience adjustments	Remeasurement gains/(losses) in other comprehensive income: Sub-total included in other comprehensive income	Exchange differences	31 December 2018
	(HK$'000)									
Benefit obligations	(7,247)	(227)	(227)	251	8	376	816	1,200	(28)	(6,051)
Benefit liabilities	**(7,247)**	**(227)**	**(227)**	**251**	**8**	**376**	**816**	**1,200**	**(28)**	**(6,051)**

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29. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

DEFERRED TAX ASSETS:

	Write-down of inventories	Lease	Accruals	Losses available for offsetting against future taxable profits	Unrealised profit	Others	Total
	(HK$'000)						
As at 1 January 2018	16,756	–	44,684	34,565	63,210	27,139	186,354
Credited/(charged) to profit or loss (note 11)	(1,564)	–	(9,632)	16,277	16,677	(3,218)	18,540
Credited to other comprehensive income	–	–	–	–	–	(1,435)	(1,435)
Exchange realignment	(603)	–	(707)	51	(1,065)	(315)	(2,639)
As at 31 December 2018 and 1 January 2019	14,589	–	34,345	50,893	78,822	22,171	200,820
Credited/(charged) to profit or loss (note 11)	(2,755)	36,859	(3,729)	(19,356)	(6,863)	54	4,210
Credited to other comprehensive income	–	–	–	–	–	1,464	1,464
Exchange realignment	(190)	(250)	(328)	176	(240)	(244)	(1,076)
As at 31 December 2019	**11,644**	**36,609**	**30,288**	**31,713**	**71,719**	**23,445**	**205,418**

The Group has no tax losses arising in the Germany (2018: HK$5,489,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has no tax losses arising in Hong Kong (2018: HK$22,697,000) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

29. DEFERRED TAX (Continued)

DEFERRED TAX LIABILITIES:

	Withholding tax on undistributed profits	Depreciation	Lease	Other intangible assets	Others	Total
	(HK$'000)					
At 1 January 2018	(18,087)	(4,836)	–	(603,001)	(13,298)	(639,222)
(Charged)/credited to profit or loss (note 11)	–	(8,383)	–	38,385	(2,169)	27,833
Credited to other comprehensive income	–	–	–	–	3,137	3,137
Exchange realignment	924	(2,799)	–	3,980	599	2,704
At 31 December 2018 and 1 January 2019	(17,163)	(16,018)	–	(560,636)	(11,731)	(605,548)
(Charged)/credited to profit or loss (note 11)	–	(7,504)	(36,406)	34,545	3,100	(6,265)
Credited to other comprehensive income	–	–	–	–	(311)	(311)
Exchange realignment	329	575	298	(8,642)	262	(7,178)
At 31 December 2019	**(16,834)**	**(22,947)**	**(36,108)**	**(534,733)**	**(8,680)**	**(619,302)**

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings generated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable tax rate of the Group is 10%.

Pursuant to the Board resolutions of PCPC, GCPC and its subsidiaries, all of which are directly or indirectly controlled by GBHK, profits earned by the aforesaid subsidiaries in 2019 will not be appropriated to GBHK in 2019 and onwards. Hence, the deferred tax liability arising from the withholding tax on profits generated by the aforesaid companies in the current year is not applicable as of 31 December 2019.

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29. DEFERRED TAX (Continued)

At 31 December 2019, other than the amount recognised in the consolidated financial statements, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such remaining earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was HK$1,786,987,000 at 31 December 2019 (2018: HK$1,469,011,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

For presentation purposes, certain deferred tax assets and liabilities within the same tax jurisdiction have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019	2018
	(HK$'000)	
Reflected in the consolidated statement of financial position:		
– Deferred tax assets	121,569	151,589
– Deferred tax liabilities	(535,453)	(556,317)

No deferred tax assets as at 31 December 2019 (2018: HK$28,186,000) have been recognised in respect of the losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

30. OTHER LIABILITIES

Included in other liabilities are put options over non-controlling interests of HK$3,734,000 (2018: HK$10,951,000) arising from the acquisition of subsidiaries and employee worker injury compensation of HK$1,899,000 (2018: HK$3,002,000) of overseas subsidiaries.

31. SHARE CAPITAL

	As at 31 December 2019	As at 31 December 2018
	(HK$'000)	
Issued and fully paid:		
1,668,023,000 (2018: 1,668,023,000) ordinary shares	**16,680**	**16,680**

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital	Share premium	Total
	('000)	(HK$'000)	(HK$'000)	(HK$'000)
At 1 January 2018	1,666,251	16,662	3,395,474	3,412,136
Share options exercised	1,772	18	8,328	8,346
Dividend	–	–	(83,401)	(83,401)
At 31 December 2018 and 1 January 2019	1,668,023	16,680	3,320,401	3,337,081
At 31 December 2019	**1,668,023**	**16,680**	**3,320,401**	**3,337,081**

SHARE OPTIONS

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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32. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purposes of motivating the eligible participants to optimise their performance efficiency for the benefit of the Group; and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. Eligible participants of the Scheme include full-time or part-time employees, executives or officers of the Company or any of its subsidiaries, any directors (including non-executive and independent non-executive directors) of the Company or any of its subsidiaries and advisers, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the board will contribute or have contributed to the Company or any of its subsidiaries as described in the Scheme. The Scheme became effective on 5 November 2010 and, unless otherwise cancelled or amended, remains in force for 10 years from that date.

The maximum number of share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 28 May 2018. The maximum number of shares issuable under share options to each eligible participant under the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue as at the date on which the share options are granted to the relevant eligible participants. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue on the date of such grant or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period determined by the directors and ends on a date which shall not be later than ten years from the date upon which the share options are deemed to be granted and accepted.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the date of offer of the share options; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

32. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price	Number of options
	HK$ per share	'000
At 1 January 2018	3.665	50,950
Granted during the year	4.600	112,300
Forfeited during the year	4.396	(28,447)
Exercised during the year	3.575	(1,772)
At 31 December 2018 and 1 January 2019	4.299	133,031
Granted during the year	3.750	85,300
Forfeited during the year	3.688	(7,051)
Exercised during the year	–	–
At 31 December 2019	**4.087**	**211,280**

No share options were exercised during the year ended 31 December 2019. The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2018 was HK$5.10 per share.

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32. SHARE OPTION SCHEME (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019

Number of options	Exercise price	Exercise period
'000	HK$ per share	
7,594	3.58	29 September 2017 to 28 September 2024
9,092	3.58	29 September 2018 to 28 September 2024
8,393	3.58	29 September 2019 to 28 September 2024
3,667	3.75	7 October 2018 to 6 October 2025
3,667	3.75	7 October 2019 to 6 October 2025
3,667	3.75	7 October 2020 to 6 October 2025
1,000	3.88	28 August 2020 to 27 August 2027
1,000	3.88	28 August 2021 to 27 August 2027
1,000	3.88	28 August 2022 to 27 August 2027
15,460	4.54	27 September 2020 to 27 March 2028
23,190	4.54	27 September 2021 to 27 March 2028
38,650	4.54	27 September 2022 to 27 March 2028
2,040	5.122	28 May 2021 to 27 May 2028
3,060	5.122	28 May 2022 to 27 May 2028
5,100	5.122	28 May 2023 to 27 May 2028
16,940	3.75	23 May 2022 to 22 May 2029
25,410	3.75	23 May 2023 to 22 May 2029
42,350	3.75	23 May 2024 to 22 May 2029
211,280		

32. SHARE OPTION SCHEME (Continued)

2018

Number of options	Exercise price	Exercise period
'000	HK$ per share	
7,594	3.58	29 September 2017 to 28 September 2024
9,260	3.58	29 September 2018 to 28 September 2024
8,560	3.58	29 September 2019 to 28 September 2024
5,039	3.75	7 October 2018 to 6 October 2025
5,039	3.75	7 October 2019 to 6 October 2025
5,039	3.75	7 October 2020 to 6 October 2025
1,000	3.88	28 August 2020 to 27 August 2027
1,000	3.88	28 August 2021 to 27 August 2027
1,000	3.88	28 August 2022 to 27 August 2027
15,760	4.54	27 September 2020 to 27 March 2028
23,640	4.54	27 September 2021 to 27 March 2028
39,400	4.54	27 September 2022 to 27 March 2028
2,140	5.122	28 May 2021 to 27 May 2028
3,210	5.122	28 May 2022 to 27 May 2028
5,350	5.122	28 May 2023 to 27 May 2028
133,031		

The Group recognised a share option expense of HK$44,660,000 (2018: HK$34,239,000) for the year ended 31 December 2019.

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32. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Share options granted on 23 May
	2019
Dividend yield (%)	1.50
Spot stock price (HK$ per share)	1.87
Historical volatility (%)	35.30
Risk-free interest rate (%)	1.58
Expected life of options (year)	10

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

No share options were exercised during the year ended 31 December 2019. The 1,772,000 share options exercised during the year ended 31 December 2018 resulted in the issue of 1,772,000 ordinary shares of the Company and new share capital of HK$17,720 and share premium and share option reserve of HK$6,317,280 (before issue expenses).

At the end of the reporting period, the Company had 211,280,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 211,280,000 additional ordinary shares of the Company and additional share capital of HK$2,112,800, and share premium of HK$863,487,970 (before issue expenses).

At the date of approval of these financial statements, the Company had 210,313,333 share options outstanding under the Scheme, which represented approximately 12.61% of the Company's shares in issue as at that date.

33. RESERVES

The changes in the reserves of the Group during the year have been disclosed in the consolidated statement of changes in equity of the Group.

STATUTORY RESERVE FUNDS

Statutory reserve funds comprise:

(i) Reserve fund

PRC laws and regulations require wholly-owned-by-foreign enterprises ("WOFE") to provide for the reserve fund by appropriating a part of the net profit (based on the entity's statutory accounts) before dividend distribution. Each subsidiary being WOFE is required to appropriate at least 10% of its net profit after tax to the reserve fund until the balance of this fund has reached 50% of its registered capital. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

(ii) Enterprise expansion fund

In accordance with relevant regulations and the articles of association of the Group's PRC subsidiaries, appropriations from net profit should be made to the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors for the subsidiaries registered in the PRC as foreign invested companies. The percentages to be appropriated to the enterprise expansion fund are determined by the boards of directors of the subsidiaries.

(iii) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the Group's PRC subsidiaries, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of this reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after these usages.

NOTES TO FINANCIAL STATEMENTS

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33. RESERVES (Continued)

MERGER RESERVE

As at 31 December 2019, the merger reserve represents the following:

(i) In 2001, the Group acquired GCPC from GCPC's then shareholders through the issue of the Company's shares to GCPC's then shareholders. The difference between the nominal value of the Company's share of the paid-up capital of GCPC and the par value of the Company's shares issued amounting to HK$108,281,000 was recognised in the merger reserve account.

(ii) In 2007, Geoby Electric Vehicle Co., Ltd. ("GPCL") was established to take over certain operations from the Group and the net asset value of the discontinued operation over the consideration received amounting to HK$1,362,000 was recognised as a deemed distribution in the merger reserve account.

(iii) The Group acquired the wooden products and E-car businesses through acquiring a 100% equity interest in PCPC in June 2010 and this acquisition was accounted for using the pooling of interests method. Prior to the establishment of PCPC on 5 November 2008, the wooden products and E-car businesses were carried out by a fellow subsidiary, GPCL. Upon establishment, PCPC acquired all the assets and liabilities related to the wooden products and E-car businesses from GPCL at their respective book values and continued the wooden products and E-car businesses afterwards. Accordingly, the retained earnings of HK$11,357,000 in respect of the wooden products and E-car businesses generated prior to the establishment of PCPC were capitalised in the merger reserve account in 2008.

(iv) In 2010, the Group disposed of its equity interests in Goodbaby (China) Commercial Co., Ltd. ("GCCL"), Shanghai Goodbaby Fashion Co., Ltd. ("SHFS"), Shanghai Online Service Co., Ltd. ("SGOL"), Ricky Bright Limited ("RCBL"), Mothercare Goodbaby China Retail Limited ("MGCR") and Mothercare-Goodbaby Retailing Co., Ltd. ("MGRL") to G-Baby Holdings Limited ("GBHL") for a consideration of HK$287,936,000 in aggregate. The consideration over the net asset value of the discontinued operations amounting to HK$35,699,000 was recognised as a deemed contribution in the merger reserve account.

HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$123,193,000 and HK$123,193,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

(b) Changes in liabilities arising from financing activities:

	Interest-bearing bank loans and other borrowings
	(HK$'000)
At 1 January 2018	2,736,799
Changes from financing cash flows	50,533
Foreign exchange realignment	(10,142)
At 1 January 2019	2,777,190
Changes from financing cash flows	(14,466)
Foreign exchange realignment	(8,978)
	2,753,746

(c) Total cash outflow for leases:

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019
	(HK$'000)
Within operating activities	62,527
Within financing activities	95,346
	157,873

35. PLEDGE OF ASSETS

Details of the Group's assets pledged for business operation are included in notes 22 and 27 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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36. COMMITMENTS

The Group had the following commitments as at 31 December:

(A) CAPITAL COMMITMENTS

The Group had the following capital commitments:

	2019	2018
	(HK$'000)	
Contracted, but not provided for, in respect of acquisition of:		
Property, plant and equipment	13,718	8,100

(B) OTHER COMMITMENT

	2019	2018
	(HK$'000)	
Upfront fee of a term loan facility	11,339	24,067

36. COMMITMENTS (Continued)

(B) OTHER COMMITMENT (Continued)

Pursuant to the term loan facility agreement in relation to the interest-bearing term loan facilities of HK$1,191 million and HK$94 million that were entered into between an oversea wholly-owned subsidiary and financial institution. The Group has paid to the financial institution an upfront fee equal to 0.96 percent on each of the loan amounts and an upfront fee equal to 0.4 percent of the aggregated amount HK$1,285 million at the first anniversary of the loan agreement. The Group shall also pay an upfront fee equal to 0.4 percent which is payable on and before the earlier of: (i) the second anniversary of the loan agreement; (ii) the date on which the loans are repaid (in full or in part); and (iii) if no loans have been made by the expiry of the facility availability period, the last day of the availability period.

Pursuant to the term loan facility agreement in relation to the interest-bearing term loan facility of HK$783 million that was entered into between an oversea wholly-owned subsidiary and financial institution. The Group has paid to the financial institution an upfront fee equal to 0.96 percent on the loan amounts. The Group shall pay to the financial institution an upfront fee equal to 0.4 percent of the facility amount HK$783 million which is payable on and before the earlier of (i) the first anniversary of the loan agreement; (ii) the date on which the loans are repaid (in full or in part); and (iii) if no loans have been made by the expiry of the facility availability period, the last day of the availability period. The Group shall also pay an upfront fee equal to 0.4 percent which is payable on and before the earlier of: (i) the second anniversary of the loan agreement; (ii) the date on which the loans are repaid (in full or in part); and (iii) if no loans have been made by the expiry of the facility availability period, the last day of the availability period.

(C) OPERATING LEASE COMMITMENTS AS AT 31 DECEMBER 2018

The Group leased certain of its office properties and plant and machinery, motor vehicles and office equipment under operating lease arrangements. Leases for plant and machinery generally have lease terms between 3 and 6 years, Furniture and fixtures generally have lease terms between 2 and 5 years, while motor vehicles generally have lease terms between 1 and 5 years. Leases for office equipment were with terms of 12 months or less.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 (HK$'000)
Within one year	87,866
After one year but not more than five years	174,206
More than five years	22,950
	285,022

NOTES TO FINANCIAL STATEMENTS

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37. RELATED PARTY TRANSACTIONS AND BALANCES

(A) NAME AND RELATIONSHIP

Name of related party	**Relationship with the Group**
Mr. Song Zhenghuan ("Mr. Song")	Director and one of the ultimate shareholders of the Company
Goodbaby Bairuikang Hygienic Products Co., Ltd. ("BRKH")	50/50 jointly controlled by First Shanghai Hygienic Products Limited and Sure Growth Investments Limited, and is significantly influenced by Mr. Song and his spouse
Goodbaby Group Co., Ltd. ("GGCL")	Controlled by Mr. Song and his spouse
Goodbaby China Holdings Limited ("CAGB")	Controlled by Mr. Song and his spouse
Goodbaby Group Pingxiang Co., Ltd. ("GGPX")	Wholly owned by GGCL

(B) RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2019	2018
	(HK$'000)	
Sales of goods to related parties (note (a))		
CAGB and its subsidiaries#	29,730	26,843
Purchase of goods from a related party (note (b))		
CAGB and its subsidiaries#	1	1
Rental expenses to related parties (note (c))		
GGPX#	13,446	12,564
CAGB and its subsidiaries#	–	414
	13,446	12,978
Expenses paid on behalf of related parties (note (d))		
CAGB and its subsidiaries#	–	241
Expenses paid by a related party (note (d))		
BRKH#	–	32

Note (a) The sales of goods to the related parties were made according to the prices and terms agreed with the related parties.

Note (b): The purchase of goods from the related party was made according to the prices and terms agreed with the related party.

Note (c): The Group entered into lease agreements in respect of certain warehouse and plant from GGPX. The rental fee under the lease for the year ended 31 December 2019 was HK$13,446,000. At 31 December 2019, the Group recognised right-of-use assets of HK$24,694,000 and lease liabilities of HK$25,880,000. The transactions were made according to the prices and terms agreed with the related parties.

Note (d): The expenses paid on behalf of/by the related parties are interest-free and repayable on demand.

These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(C) OUTSTANDING BALANCES WITH RELATED PARTIES

The amounts due from related parties are unsecured, interest-free and repayable in 120 days.

	2019	2018
	(HK$'000)	
Amounts due from a related party:	11,595	11,571
CAGB and its subsidiaries#		
Right-of-use assets in relation to buildings recognised by the Group as a lessee to a related party		
GGPX	24,694	–
Lease liabilities due to a related party		
GGPX	25,880	–

(D) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2019	2018
	(HK$'000)	
Short term employee benefits	39,704	28,169
Equity-settled share option expense	35,334	24,661
Post-employment benefits	571	1,208
Director fees	–	–
Total compensation paid to key management personnel	**75,609**	**54,038**

Further details of directors' remuneration are included in note 9 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019	2018	2019	2018
	(HK$'000)			
Financial assets				
Derivative financial instruments	6,334	2,987	6,334	2,987
Other long-term assets – call options over non-controlling interests	672	4,287	672	4,287
	7,006	**7,274**	**7,006**	**7,274**
Financial liabilities				
Derivative financial instruments	4,571	1,058	4,571	1,058
Put options over non-controlling interests	3,734	10,951	3,734	10,951
Interest-bearing bank loans and other borrowings	2,753,746	2,777,190	2,753,746	2,777,190
	2,762,051	**2,789,199**	**2,762,051**	**2,789,199**

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, financial assets included in prepayments, other receivables, time deposits, pledged bank deposits, current interest-bearing bank loans and other borrowings, trade and bills payables, other liabilities, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments. The carrying amount of the non-current interest-bearing bank loans, and other borrowings of the Group approximates to their fair value because the loans have a floating interest rate.

The finance manager of each subsidiary of the Group is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The Group's finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit ratings. Derivative financial instruments, i.e., forward currency contracts, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts are the same as their fair values.

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	31 December 2019	Fair value measurement using Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Financial assets at fair value through profit or loss				
– Call options over non-controlling interests	672	–	–	672
Derivative financial instruments	6,334	–	6,334	–
	7,006	**–**	**6,334**	**672**

	31 December 2018	Fair value measurement using Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Financial assets at fair value through profit or loss				
– Call options over non-controlling interests	4,287	–	–	4,287
Derivative financial instruments	2,987	–	2,987	–
	7,274	**–**	**2,987**	**4,287**

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY (Continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2019	2018
	(HK$'000)	
At 1 January	4,287	142,248
Remeasurement recognised in other expenses	(3,517)	(1,745)
Purchases	922,983	153,877
Disposals	(923,025)	(290,000)
Exchange realignment	(56)	(93)
At 31 December	**672**	**4,287**

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The Group did not have any financial liabilities measured at fair value as at 31 December 2018.

Liabilities for which fair values are disclosed:

	31 December 2019	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Put options over non-controlling interests	3,734	–	–	3,734
Derivative financial instruments	4,571	–	4,571	–
Interest-bearing bank loans and other borrowings	2,753,746	–	2,753,746	–
	2,762,051	**–**	**2,758,317**	**3,734**

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31 DECEMBER 2019

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY (Continued)

	31 December 2018	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Put options over non-controlling interests	10,951	–	–	10,951
Derivative financial instruments	1,058	–	1,058	–
Interest-bearing bank loans and other borrowings	2,777,190	–	2,777,190	–
	2,789,199	**–**	**2,778,248**	**10,951**

The movements in fair value measurements in Level 3 during the year are as follows:

	2019	2018
	(HK$'000)	
At 1 January	10,951	10,460
Remeasurement recognised in other (income)/expense	(6,953)	1,211
Exchange realignment	(264)	(720)
At 31 December	**3,734**	**10,951**

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

FINANCIAL ASSETS

As at 31 December 2019

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
		(HK$'000)	
Trade and notes receivables	–	1,075,634	1,075,634
Financial assets included in prepayments and other receivables (note 21)	–	330,617	330,617
Due from a related party	–	11,595	11,595
Derivative financial instruments	6,334	–	6,334
Other long-term assets (note 18)	672	8,109	8,781
Pledged bank deposits	–	24,031	24,031
Cash and cash equivalents	–	1,054,615	1,054,615
	7,006	**2,504,601**	**2,511,607**

As at 31 December 2018

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
		(HK$'000)	
Trade and notes receivables	–	1,097,040	1,097,040
Financial assets included in prepayments and other receivables (note 21)	–	303,536	303,536
Due from a related party	–	11,571	11,571
Derivative financial instruments	2,987	–	2,987
Other long-term assets (note 18)	4,287	3,712	7,999
Time deposits	–	3,447	3,447
Cash and cash equivalents	–	926,952	926,952
	7,274	**2,346,258**	**2,353,532**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

FINANCIAL LIABILITIES

As at 31 December 2019

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
		(HK$'000)	
Financial liabilities included in other payables and accruals (note 25)	–	208,341	208,341
Trade and bills payables	–	1,324,362	1,324,362
Interest-bearing bank loans and other borrowings	–	2,753,746	2,753,746
Derivative financial instruments	4,571	–	4,571
Other liabilities (note 30)	–	3,734	3,734
	4,571	**4,290,183**	**4,294,754**

As at 31 December 2018

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
		(HK$'000)	
Financial liabilities included in other payables and accruals (note 25)	–	185,708	185,708
Trade and bills payables	–	1,439,374	1,439,374
Interest-bearing bank loans and other borrowings	–	2,777,190	2,777,190
Derivative financial instruments	1,058	–	1,058
Other liabilities (note 30)	–	10,951	10,951
	1,058	**4,413,223**	**4,414,281**

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing bank loans and other borrowings, trade and bills payables, other payables and other liabilities. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial investments such as trade and other receivables, cash and cash equivalents and amounts due from related parties, which arise directly from its operations.

The Group also enters into derivative transactions, primarily forward currency contracts. The purpose is to manage the currency risk arising from the Group's operations.

It is, and has been throughout the year, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks which are summarised below.

INTEREST RATE RISK

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The interest rates and terms of repayment of borrowings are disclosed in note 27.

The Group has not used any interest swaps to hedge its exposure to interest rate risk. The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/ decrease in interest rate	(Decrease)/ increase in profit before tax
	(HK$'000)	
Year ended 31 December 2019	+5%/–5%	(7,093)/7,093
Year ended 31 December 2018	+5%/–5%	(6,179)/6,179

A reasonably possible change of 5% in the interest rates with all other variables held constant has no impact on the Group's equity other than retained earnings.

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31 DECEMBER 2019

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposure. This exposure arises from sales or purchases by operating units in currencies other than the units' functional currencies.

The Group manages its foreign currency risk by entering into foreign currency forward contracts to hedge its exposure to fluctuations on the translation into RMB of its foreign operations of sales in the United States Dollars ("US$") or Euros ("EUR") and the translation into EUR of its foreign operations of sales in various currencies, as described in note 23. It is the Group's policy to ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at a fixed rate where necessary to address short term imbalances. Management will continue to monitor foreign exchange exposure and will continue to consider hedging significant foreign currency exposure by using financial instruments such as foreign currency forward contracts.

The operating units' functional currencies of the Group are RMB, EUR and US$, while the currencies which have significant transactional currency exposures are US$ and EUR. The Group's exposure to foreign currency changes for all other currencies is not material. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and EUR exchange rates against RMB, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in US$ rate	Increase/ (decrease) in profit before tax
		(HK$'000)
Year ended 31 December 2019		
If US$ strengthens against RMB	5%	21,275
If US$ weakens against RMB	(5%)	(21,275)
If EUR strengthens against RMB	5%	60,649
If EUR weakens against RMB	(5%)	(60,649)
Year ended 31 December 2018		
If US$ strengthens against RMB	5%	34,444
If US$ weakens against RMB	(5%)	(34,444)
If EUR strengthens against RMB	5%	17,736
If EUR weakens against RMB	(5%)	(17,736)

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Maximum exposure and year-end staging

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

For listed debt investments, the Group also monitors them by using external credit ratings.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK (Continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	(HK$'000)				
Trade receivables*	–	–	–	1,075,634	1,075,634
Financial assets included in prepayments and other receivables					
– Normal**	330,617	–	–	–	330,617
Pledged bank deposits					
– Not yet past due	24,031	–	–	–	24,031
Cash and cash equivalents					
– Not yet past due	1,054,615	–	–	–	1,054,615
	1,409,263	**–**	**–**	**1,075,634**	**2,484,897**

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	(HK$'000)				
Trade receivables*	–	–	–	1,097,040	1,097,040
Financial assets included in prepayments and other receivables					
– Normal**	303,536	–	–	–	303,536
Pledged bank deposits					
– Not yet past due	3,447	–	–	–	3,447
Cash and cash equivalents					
– Not yet past due	926,952	–	–	–	926,952
	1,233,935	**–**	**–**	**1,097,040**	**2,330,975**

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

As the end of the reporting period, the Group had certain a concentration of credit risk as of the Group's trade receivables were due from the Group's largest customer.

LIQUIDITY RISK

The Group monitors its exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing loans. The Group's policy is that all the borrowings should be approved by the chief financial officer.

The tables below summarise the maturity profile of the Group's financial liabilities at the end of each reporting period based on contractual undiscounted payments:

31 December 2019

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(HK$'000)					
Interests-bearing bank loan and other borrowings	36,959	242,128	691,897	1,917,778	–	2,888,762
Lease liabilities	–	23,568	77,809	183,181	2,212	286,770
Trade and bills payables	1,054,664	269,698	–	–	–	1,324,362
Derivative financial instruments	–	–	18	–	–	18
Other liabilities	–	–	–	3,734	–	3,734
Other payables	208,341	–	–	–	–	208,341
	1,299,964	**535,394**	**769,724**	**2,104,693**	**2,212**	**4,711,987**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

LIQUIDITY RISK (Continued)

31 December 2018

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	(HK$'000)				
Interests-bearing bank loan and other borrowings	155,693	457,726	359,265	2,003,344	2,976,028
Trade and bills payables	1,269,572	169,802	–	–	1,439,374
Derivative financial instruments	–	1,058	–	–	1,058
Other liabilities	–	–	–	10,951	10,951
Other payables	185,708	–	–	–	185,708
	1,610,973	**628,586**	**359,265**	**2,014,295**	**4,613,119**

CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit profile and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank loans and other borrowings, trade and bills payables, other payables and accruals, and less cash and cash equivalents. Capital represents equity attributable to owners of the parent and less hedging reserve.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

LIQUIDITY RISK (Continued)

The gearing ratios at the end of the reporting periods were as follows:

	2019	2018
	(HK$'000)	
Trade and bills payables	1,324,362	1,439,374
Other payables and accruals	808,158	760,566
Interest-bearing bank loans and other borrowings	2,753,746	2,777,190
Less: Cash and cash equivalents	(1,054,615)	(926,952)
Net debt	3,831,651	4,050,178
Equity attributable to owners of the parent	5,037,473	(4,914,720)
Less: Hedging reserve	(371)	(1,606)
Adjusted capital	5,037,844	4,916,326
Capital and net debt	**8,869,495**	**8,966,504**
Gearing ratio	**43%**	**45%**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019	2018
	(HK$'000)	
NON-CURRENT ASSETS		
Investments in subsidiaries	3,809,860	3,809,860
Total non-current assets	3,809,860	3,809,860
CURRENT ASSETS		
Other receivables	329	425
Due from subsidiaries	596,431	600,168
Cash and cash equivalents	1,113	2,000
Total current assets	597,873	602,593
CURRENT LIABILITIES		
Dividend payables	8	8
Due to a subsidiary	1,298,011	1,225,559
Total current liabilities	1,298,019	1,225,567
NET CURRENT LIABILITIES	(700,146)	(622,974)
TOTAL ASSETS LESS CURRENT LIABILITIES	3,109,714	3,186,886
Net assets	3,109,714	3,186,886
EQUITY		
Share capital	16,680	16,680
Reserves (note)	3,093,034	3,170,206
Total equity	**3,109,714**	**3,186,886**

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium	Share option reserve	Accumulated losses	Total
	(HK$'000)			
Balance at 31 December 2017 and 1 January 2018	3,395,474	36,768	(85,256)	3,346,986
Loss for the year	–	–	(133,935)	(133,935)
Dividends	(83,401)	–	–	(83,401)
Share options exercised	8,328	(2,011)	–	6,317
Equity-settled share option arrangements	–	34,239	–	34,239
Balance at 31 December 2018 and 1 January 2019	3,320,401	68,996	(219,191)	3,170,206
Loss for the year	–	–	(121,832)	(121,832)
Equity-settled share option arrangements	–	44,660	–	44,660
As at 31 December 2019	**3,320,401**	**113,656**	**(341,023)**	**3,093,034**

42. EVENTS AFTER THE REPORTING PERIOD

(a) Subsequent to the balance sheet date, the outbreaks of the coronavirus disease 2019 ("COVID-19") has inevitably caused certain impact on both the overall global markets and business performance of the Group, mainly due to travel restrictions and other precaution measures imposed by relevant local authorities that resulted in delays in commencement for work production in manufacturing plants, temporary closure for business of suppliers and distributors, and the overall decline in market demand from retail sector.

The Group estimates that the degree of COVID-19 impact will be dependent on the duration of the epidemic and the outcome of various preventive measures undertaken by respective countries across the globe. The Group is closely monitoring the market development and continuously evaluating the global impact of COVID-19 situation on the Group's operational and financial performance.

Given the dynamic circumstances and uncertainties across the global markets to be recovered from the outbreaks of COVID-19, the Group's 2020 financial performance would inevitably be affected by the COVID-19 situation, and the overall financial impact, which will be reflected in the Group's 2020 interim and annual financial statements, could not be reasonably estimated at this stage.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2019

42. EVENTS AFTER THE REPORTING PERIOD (Continued)

(b) to the balance sheet date, as disclosed in the Company's announcement dated 24 March 2020, the Board of Directors proposes to recommend to the shareholders at the forthcoming Annual General Meeting ("AGM") for adoption of a Share Option Scheme and termination of the existing share option scheme, with effective from the adoption date to approve the Share Option Scheme.

The adoption of Share Option Scheme of the Company is conditional upon:

(i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme; and

(ii) the passing of ordinary resolution(s) by the shareholders at the AGM to approve and adopt the Share Option Scheme, authorise the Board to grant share options under the Share Option Scheme, to allot and issue shares pursuant to the exercise of any share options to be granted pursuant to the Share Option Scheme.

43. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, IAS 17, and related interpretations.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2020.

FIVE YEAR FINANCIAL SUMMARY

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	(HK$'000)				
RESULTS					
Revenue	8,777,142	8,629,115	7,142,566	6,238,179	6,951,131
Cost of sales	(4,996,484)	(4,967,782)	(4,395,786)	(4,126,715)	(4,900,919)
Gross profit	3,780,658	3,661,333	2,746,780	2,111,464	2,050,212
Other income and gains	74,116	98,303	41,115	59,101	94,881
Selling and distribution expenses	(2,274,966)	(2,208,873)	(1,332,515)	(982,468)	(1,030,382)
Administrative expenses	(1,170,329)	(1,207,135)	(1,103,495)	(924,260)	(794,064)
Other expenses	(19,544)	(16,803)	(39,429)	(50,199)	(3,062)
Operating profit	389,935	326,825	312,456	213,638	317,585
Finance income	4,543	3,867	4,617	3,347	7,246
Finance costs	(141,856)	(123,576)	(65,506)	(55,166)	(60,466)
Share of profits and losses of a joint venture	339	407	(29)	26	(30)
Share of profits and losses of an associate	(131)	–	–	–	(8)
Profit before tax	252,830	207,523	251,538	161,845	264,327
Income tax (expense)/credit	(50,262)	(40,692)	(67,132)	50,395	(61,655)
Profit for the year	202,568	166,831	184,406	212,240	202,672
Attributable to:					
Owners of the parent	202,194	163,764	179,350	207,390	197,434
Non-controlling interests	374	3,067	5,056	4,850	5,238
	202,568	**166,831**	**184,406**	**212,240**	**202,672**

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019	2018	2017	2016	2015
	(HK$'000)				
Total assets	10,876,962	10,618,485	10,964,571	5,518,738	5,921,551
Total liabilities	(5,790,828)	(5,655,379)	(5,798,704)	(3,040,576)	(3,513,449)
Non-controlling interests	(48,661)	(48,386)	(57,983)	(37,882)	(42,844)
	5,037,473	**4,914,720**	**5,107,884**	**2,440,280**	**2,365,258**

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