Goodbaby International

2020 Annual Report

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

cybex gb evenflo

Corporate Information

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Song Zhenghuan *(Chairman)*
Mr. Martin Pos *(Chief Executive Officer)*
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
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
Ms. Chiang Yun

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor CITIC Tower
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Central
Hong Kong

LEGAL ADVISOR

As to Hong Kong law
Sidley Austin
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Two International Finance Centre
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

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HONG KONG BRANCH SHARE REGISTRAR

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HEAD OFFICE

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Jiangsu Province, 215331
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

COMPANY SECRETARY

Ms. Ho Siu Pik

AUTHORIZED REPRESENTATIVES

Mr. Song Zhenghuan
Ms. Ho Siu Pik

WEBSITE

www.gbinternational.com.hk

STOCK CODE

1086


cybex

Chairman's Statement

CHAIRMAN'S STATEMENT

Dear shareholders and investment analysts,

The year 2020 was a turbulent and challenging one, with the global economy severely impacted by both political volatility and Coronavirus Disease 2019 ("COVID-19"). For the Group ("Goodbaby International Holdings Limited, together with its subsidiaries") in particular, the reduction in travel caused by COVID-19 brought unprecedented challenges to its core principal business. Despite the market challenges, however, the Group continued to implement its proven business strategy and press ahead with various planned reforms. Successfully turning challenges into opportunity, the Group has been able to lay solid foundations for development in the future.

The Group recorded revenue of HK$8,305.0 million for 2020, representing a slight decrease of 5.4% from HK$8,777.1 million in 2019. However, by comparison with 2019 the Group achieved a steady increase in gross profit margin and strong growth in operating profit. The market recognition and brand value of our core strategic brands continued to improve. The Group's efforts in 2020 to reinforce and enhance its business model, which involved further integrating brand development, distribution, research and development ("R&D"), production, services and supply chain, helped it to further consolidate its leading position in the industry.

The Group's **CYBEX** business moved rapidly forward in the year. Despite enforced lockdowns in its European mother market for several consecutive months due to COVID-19, CYBEX recorded revenue of HK$2,656.8 million, a year-on-year increase of 7.0% on a constant currency basis. In the second half of 2020, the CYBEX business recovered strongly after a first-half dip, recording year-on-year growth of 24.3% on a constant currency basis and significantly increasing its market share. Throughout the year, CYBEX launched more than 50 new products; its world's first smart electric baby stroller was listed among Time Magazine's 100 Best Inventions of 2020, a testimony to how the brand is leading the industry in technological innovation. Four CYBEX car seat products received the highest rating of "Best in Class" in Europe's most important child car seat test, carried out by Germany's prestigious independent testing agency ADAC. As of the end of 2020, CYBEX had received a total of 49 "Best in Class" ratings in safety tests conducted by ADAC. In addition, during the year CYBEX won more than 40 design and quality awards, evidence of the trust placed in the brand by consumers around the world. As a leading premium "technical-lifestyle" brand, CYBEX continued to draw on the world's top design resources, rapidly expanded in regional markets and embraced new sports categories to reinforce its brand strength and to further extend the scope of the premium parenting lifestyle it offers.

gb was the first of the Group's brands to be impacted by COVID-19 in 2020. Faced by this severe challenge, the gb management team proceeded to implement digital transformation and build a digital infrastructure that has enabled the brand to quickly adapt to the new environment. It has now established a cloud platform that connects it directly with fan communities on the consumer side, and gives those fans the ability to share and promote our products and services. The platform has played a significant role in helping gb manage the sudden halt of offline retail activity. Revenue from online sales grew steadily throughout the year, effectively offsetting offline losses. The brand's new generation of offline flagship stores, designed to supplement the online cloud stores as part of an all-round immersive shopping experience, have become Internet-famous sites. We continued to implement retail reforms in our distribution channels, and further promoted the cloud store model of physical retail + community e-commerce. Further investment was also made into upgrading the gb brand to give it a youthful, technological and fashionable brand image in the minds of consumers. A gb platform connecting the world's top design resources has brought together more than 120 outstanding independent designers, and this has supported continuous new product launches. At the same time, the brand's embrace of a new omni-channel intelligent business model in China market is creating new momentum for business development. The impact of COVID-19 saw the gb brand record a year-on-year decline of 24.0% in the first half of the year, but sales quickly stabilized in the second half. Overall, the gb brand recorded revenue of HK$2,472.0 million in 2020, representing a year-on-year decrease of 12.8% on a constant currency basis.

Evenflo celebrated its 100th anniversary in the year. Despite the impact of COVID-19 on the US market, Evenflo's revenue began to recover from mid-June 2020, and achieved stable year-on-year revenue development in the third quarter of 2020, against the wider retail trend. However, this was offset by delivery delays due to global logistics interruptions, resulting in sales revenue totalling HK$1,667.7 million for the year and representing a year-on-year decrease of 7.9% on a constant currency basis. During the year, Evenflo focused on rebranding and R&D investment, and new products from Evenflo's Gold line have established themselves in the market. Among these, the newly launched disruptive product, the Revolve 360 rotational all-in-one car seat, has emerged as a new benchmark in terms of design, safety and functionality in the US market. Evenflo is embarking on its second centennial journey with a new brand image.

The Group's Blue Chip business achieved stable growth in revenue throughout the year. At times when COVID-19 made visits to negotiate business and discuss products impossible, the Group maintained close contact with its customers and responded flexibly to market demands. With its industry-leading advantages, which include its ability to integrate R&D, production, services and supply chain, the Group has been able to provide efficient services to existing customers while also attracting new high-end customers in the industry and building stable long-term relationships with them.

Remaining fully committed to innovation, the Group submitted 528 new patent applications in 2020. During the year, it also established a smart technology innovation center as a source of in-house cutting-edge technology, and participated in the US CES exhibition for the first time where it showcased its smart series products. Highlights of the year include the Group winning the G-Mark Best 100 Design Award in Japan, the Reddot Design Award in Germany, and the JPMA Best Safety Seat Award in the US.

The Group's leadership in the field of global standard-making reached new levels during the year. The world's first international standard for strollers, ISO31110, was formulated, filling the gap in stroller standards in some countries and regions. In addition, the drafting of the first-ever standard for aviation child safety seats has been completed in China. As of the end of 2020, the Group had led or participated in 222 standard-making collaborations globally.

The Group's advanced manufacturing is entering a new stage with the gradual introduction of digital intelligent management in its factories. The aim is to achieve real-time management and exercise fully-visualized control over the entire supply chain, from ordering to delivery. Breakthrough technologies such as rivet-free technology, intelligent detection, and automated injection molding have been undergoing in-depth development, delivery times have been shortened, inventory and manpower have been optimized, and the Group has become more cost competitive as a result. Further, ESG implementation has been enhanced while the quality of our products and services has been further improved, reflecting our corporate social responsibility commitment.

In the face of a global environment of much volatility and many uncertainties, the only thing we are certain of is our own attitude. The Management will continue to embrace a spirit of entrepreneurship that includes having the courage to challenge oneself, keep learning and progressing, and adapt to continuous changes, in order to lead employees forward in our chosen strategic direction. Our aim from all this is to create more value for our shareholders, our employees, and society as a whole.

We look forward to your ongoing care and support. Thank you!

Song Zhenghuan
Chairman
23 March 2021

THE CYBEX
PLATINUM CAR SEATS
SAFETY
MEETS
ELEGANCE
cybex
cybex

Management Discussion & Analysis

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

Throughout the year ended 31 December 2020 (the "Period"), the global economy and respective regional economic and political environments experienced a profound impact directly linked to the outbreak of COVID-19. During the Period, the Group remained steadfast in its commitment to its long-term strategy while concurrently executing aggressive, proactive reform initiatives. As a result, the Group withstood the related challenges and continues to remain robust operationally, successfully turning the global crisis into opportunities.

A reflection of our Group accomplishments during the Period include:

1. **Notwithstanding the moderate and temporary revenue decline linked directly to the impact of COVID-19; Group profitability notably improved compared to the corresponding period in 2019;**

    a. Each Strategic brand and Blue Chip business recorded profitability for the Period

    b. Proactive operating expense ("OPEX") control across all regions facilitated profitability growth

2. **Our balanced global footprint minimized risk in any one territory and was a catalyst for a strong competitive advantage resulting in increased market share;**

3. **Our owned production and regional supply chain/operations teams functioned as the backbone of our operations during the pandemic period, with minimal or no supply interruptions.**

Our business performance for the Period was inevitably impacted by the global outbreak of COVID-19. Prior to the COVID-19 outbreak, our global commercial performance was generating very strong momentum. However, the global spread of COVID-19 has had a direct impact on both overall global markets and the Group's business performance during the Period. Our revenue for the Period decreased by 5.4% to approximately HK$8,305.0 million from approximately HK$8,777.1 million for the corresponding period in 2019. During the Period, foreign exchange rate fluctuations impacted the overall revenue growth. On a constant currency basis, our revenue for the Period recorded a 5.0% decrease compared to the corresponding period in 2019. Our reported gross profit decreased by 3.0% to approximately HK$3,668.1 million for the Period from approximately HK$3,780.6 million for the corresponding period in 2019. However, due to proactive commercial management actions, aggressive control on OPEX and optimization of financing costs, our reported operating profit increased by 10.3% to approximately HK$430.0 million from approximately HK$389.9 million for the corresponding period in 2019 and our reported net profit increased by 27.3% to approximately HK$257.9 million for the Period from approximately HK$202.6 million for the corresponding period in 2019. Additionally, on a non-GAAP basis, our operating profit increased by 21.8% to approximately HK$576.3 million for the Period from approximately HK$473.0 million for the corresponding period in 2019 and our net profit significantly increased by 38.5% to approximately HK$382.4 million for the Period from approximately HK$276.1 million for the corresponding period in 2019.

During the Period, the Group's core Strategic brands recorded a decrease of 4.7% in revenue (4.4% decrease on a constant currency basis) from the revenue of the corresponding period in 2019.

Summary of the Group's core Strategic brands revenue:

	For the year ended 31 December					
(HK$ million)	2020		2019		Change (%)	Change on a constant currency basis (%)
Group Total Revenue	**$8,305.0**		**$8,777.1**		**–5.4%**	**–5.0%**
	Amount	% of Revenue	Amount	% of Revenue	Change (%)	Change on a constant currency basis (%)
Core Strategic Brands Revenue	$6,796.5	81.8%	7,131.7	81.3%	–4.7%	–4.4%
CYBEX	2,656.8	32.0%	2,457.5	28.0%	8.1%	7.0%
gb	2,472.0	29.8%	2,834.7	32.3%	–12.8%	–12.1%
Evenflo	1,667.7	20.0%	1,839.5	21.0%	–9.3%	–7.9%

EXECUTIVE SUMMARY

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

- **CYBEX** brand recorded an increase in revenue of 8.1% (7.0% increase on a constant currency basis) in the Period to approximately HK$2,656.8 million from approximately HK$2,457.5 million for the corresponding period in 2019. This financial performance represents another historical record performance for revenue, gross profit and profitability. Whilst the negative impacts of COVID-19 were experienced in the Spring, CYBEX achieved strong global performance in January and a very strong recovery beginning in the second half of May which continued through December as regional economies gradually began to reopen and remain operational. Such strong pre COVID-19 performance and subsequent strong recovery across all key markets were driven by CYBEX's strong brand position and product portfolio (both car seats and strollers), fortified global operations and supply chain, expansion of distribution channels and the launch of new products. CYBEX outperformed its direct competitors and continued to gain market share during the Period. CYBEX continued to receive multiple awards from independent European consumer testing organizations (e.g. ADAC), further attesting to the brand's commitment to safety, design and function. CYBEX will continue its aggressive product development, expansion of National Distribution platforms and introduction of new product categories, further driving its future growth and reinforcing its leading position as the premium "technical – lifestyle" brand globally.

MANAGEMENT DISCUSSION & ANALYSIS

- **gb** brand recorded a decrease in revenue of 12.8% (12.1% decrease on a constant currency basis) in the Period to approximately HK$2,472.0 million from approximately HK$2,834.7 million for the corresponding period in 2019. In the key China market, gb brand recorded strong revenue performance prior to the outbreak of COVID-19. The overall revenue decline in the Period was directly attributed to the impact of COVID-19 on our offline retail and wholesale channels in China, which initially forced the nationwide temporary closure of our retail stores beginning in late January and a gradual reopening in late March/early April and then subsequent periodic regional shutdowns/re-openings throughout the remainder of 2020 as required by local authorities. As a direct result, the offline retail and wholesale channel performance was linked to the slow, but gradual, recovery of overall foot traffic and an approximate 19% reduction in the number of our existing self-managed offline stores. Seizing opportunities during the pandemic, we continued to modernize and enhance gb's brand image and accelerated our rapid business transformation toward a digital, real-time data-driven cloud/social media based online platform – thus achieving growth in our online channels during the Period, which was fueled by strong revenue recovery and growth in our non-durable product category in the second half of 2020 as compared to the corresponding period in 2019. Whilst the birth rate in China declined approximately 15% in 2020 (approximate 28% cumulative decline during the last three years), gb has maintained and will strengthen its leading brand awareness in the China market by dedicating resources to deliver innovate products for both durable and non-durable products and utilizing targeted marketing to key consumer groups to remain top of mind in design, safety and functionality.

- **Evenflo** brand recorded a decrease in revenue of 9.3% (7.9% decrease on a constant currency basis) in the Period to approximately HK$1,667.7 million from approximately HK$1,839.5 million for the corresponding period in 2019. The Evenflo brand performance was stable in the first quarter of 2020 before the outbreak of COVID-19 in the United States and then was negatively impacted during the second quarter of 2020 by the first wave outbreak of COVID-19. A revenue recovery began in mid June and achieved stable revenue development in the third quarter of 2020 year-on-year, offset by late year delayed shipments to key national retailers caused by disruptions in global logistics due to the continuing COVID-19 impact and ongoing economic and political uncertainty. Online revenues registered growth during the Period driven by strong consumer acceptance of new product introductions. The new product introductions are the result of the strategy of enhancing the Evenflo brand image and shifting the overall product mix towards more profitable products. We believe this revenue performance during the Period resulted in a market share increase. International export sales (primarily Asian territories) were significantly negatively impacted by COVID-19 with gradual recovery expected in 2021.

During the Period, our Blue Chip business recorded a slight decrease of 1.1% (0.3% decrease on a constant currency basis) to approximately HK$997.2 million in the Period as compared to approximately HK$1,008.6 million for the corresponding period in 2019. While our Blue Chip revenues were stable in January and February, March was significantly negatively impacted due to our China factories shutdown in February and customers started to partially delay orders from end of March to the second quarter, resulting in a net first half revenue decrease of nearly 9.9%. Offsetting the first half revenue decrease is a strong and rapid recovery in the second half (8.0% growth; 7.1% growth on a constant currency basis) resulting from the resumption of shipments from China production and the gradual recovery in our customers' global markets. Our Blue Chip business remains stable.

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$511.4 million as compared to approximately HK$636.8 million in the corresponding period of 2019. This approximate 19.7% decrease (18.6% decrease on a constant currency basis) was caused by the COVID-19 impact combined with continued portfolio rationalization.

OUTLOOK

Notwithstanding the overall impact from COVID-19, we are very encouraged by our business development and the proven strength of our business platform. We remain very confident in our overall strategy and resuming our revenue growth as 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 ongoing 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. CYBEX will realize strong global revenue growth across all key geographic regions and gain market share driven by its current product portfolio, new product launches, new category extensions, strengthened supply chain capabilities and expansion of national distribution platforms in new geographic territories. gb brand will continue its brand upgrade, rapid expansion of digital cloud retail system and social media based channels and its focus on product innovation, technologies and new product launches, which will establish the foundation for growth in revenue and profitability. We will continue to invest in and execute our digital transformation to strengthen customer engagement in all owned-channels, upgrade our retail store concepts working in concert with our cloud retail system to provide deeper engagement and immersive experience with consumers. We will also expand our distribution and brand footprint, through franchising, into lower tier cities in China. Evenflo will continue to drive sustainable revenue and market share growth based on strong consumer reception to recent product launches; it will launch new, more profitable products and continue to fulfill 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 as 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 achieving sustained profitable growth.

While encouraged by the Group performance during the Period, we do anticipate certain continuing lingering impacts from a COVID-19 resurgence, and accordingly, we remain vigilant and will implement further necessary proactive measures to ensure the ongoing viability of the Group performance.

With the introduction of the gradual global distribution of vaccines to combat COVID-19 and the preliminary signs of stabilization in both economic and political environments in our key markets, we are viewing mid to late 2021 with growing optimism. In the interim, the global environment remains very volatile and dynamic. Any significant resurgence of COVID-19 may influence Group commercial performance, but our strong global one-dragon model is the key foundational element to continue to achieve significant accomplishments in all environments.

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

REVENUE

For the Period, the total revenue of the Group decreased by 5.4% to approximately HK$8,305.0 million from approximately HK$8,777.1 million for the corresponding period in 2019. During the Period, foreign exchange rate fluctuations impacted the overall revenue growth. On a constant currency basis, our revenue for the Period recorded a 5.0% decrease compared to the corresponding period in 2019.

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 (%)
	2020		2019			
(HK$ million)	Revenue	% of revenue	Revenue	% of revenue		
Group's own brand and retailer private label businesses	7,307.8	88.0	7,768.5	88.5	–5.9%	–5.6%
– APAC	3,059.2	36.8	3,495.5	39.8	–12.5%	–11.7%
– EMEA	2,455.2	29.6	2,328.2	26.5	5.5%	4.3%
– Americas	1,793.4	21.6	1,944.8	22.2	–7.8%	–6.5%
Blue Chip business	997.2	12.0	1,008.6	11.5	–1.1%	–0.3%
Total	**8,305.0**	**100.0**	**8,777.1**	**100.0**	**–5.4%**	**–5.0%**

The decline of the Group's own brands and retailer private label businesses was attributable to profound impact directly linked to the COVID-19 outbreak (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$2,670.9 million in the Period against approximately HK$3,106.4 million in the corresponding period in 2019, a decrease of 14.0% (a decrease of 12.4% on a constant currency basis). The overall revenue decline in the Period was directly attributed to the impact of COVID-19 on our offline retail and wholesale channels in China. The revenue from markets outside China decreased slightly to approximately HK$388.3 million in the Period from approximately HK$389.1 million in the corresponding period of 2019.

- In region EMEA, we recorded revenue of approximately HK$2,455.2 million for the Period, an increase of 5.5% (4.3% on a constant currency basis) from approximately HK$2,328.2 million for the corresponding period in 2019. The growth in region EMEA was mainly attributable to the strong performance of our core Strategic brand CYBEX.

- In region Americas, we recorded revenue of approximately HK$1,793.4 million in the Period, a decrease of 7.8% (6.5% decrease on a constant currency basis) from approximately HK$1,944.8 million for the corresponding period in 2019. The decrease was mainly attributable to the decrease of our core Strategic brand Evenflo. The brand's performance was stable in the first quarter of 2020 before the outbreak of COVID-19 in Americas and then was negatively impacted during the second quarter of 2020 by the first wave outbreak of COVID-19. A revenue recovery began in mid June and achieved stable revenue development in the third quarter of 2020 year-on-year, offset by late year delayed shipments to key customers caused by disruptions in global logistics due to the continuing COVID-19 impact.

Revenue from Blue Chip business decreased slightly by 1.1% (0.3% decrease on a constant currency basis) to approximately HK$997.2 million for the Period as compared to approximately HK$1,008.6 million for the corresponding period in 2019. While our Blue Chip revenues were stable in January and February, March was significantly negatively impacted due to our China factory shutdown in February and customers started to partially delay orders from end of March to the second quarter, resulting in a net first half revenue decrease of nearly 9.9%. Offsetting the first half revenue decrease is a strong and rapid recovery in the second half (8.0% growth; 7.1% growth on a constant currency basis) resulting from the resumption of shipments from China production and the gradual recovery in our customers' global markets. Our Blue Chip business remains stable.

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

Cost of sales decreased by 7.2% to approximately HK$4,636.9 million for the Period from approximately HK$4,996.5 million for the corresponding period in 2019. Gross profit for the Group decreased to approximately HK$3,668.1 million for the Period, which was in line with the decline of Group's revenue from approximately HK$3,780.6 million for the corresponding period in 2019, and the gross profit margin increased by 1.1 percentage points to 44.2% for the Period from approximately 43.1% for the corresponding period in 2019. The improvement in gross profit margin was mainly attributable to increased revenue contribution from the Group's 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 increased by approximately HK$15.9 million to approximately HK$90.0 million for the Period as compared to approximately HK$74.1 million for the corresponding period in 2019, which was mainly attributable to the increase in gain on wealth investment products.

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 decreased by approximately HK$143.6 million to approximately HK$2,131.4 million for the Period from approximately HK$2,275.0 million for the corresponding period in 2019. The decrease was mainly attributable to:

a) the decrease in marketing expenses to approximately HK$409.3 million for the Period from approximately HK$498.9 million for the corresponding period in 2019, attributable to Group's aggressive cost control to respond to the impact of COVID-19;

b) the decrease in warehousing and transportation costs to approximately HK$430.3 million for the Period from approximately HK$452.7 million for the corresponding period in 2019, in line with the decline in revenue;

c) the decrease in costs in personnel to approximately HK$570.6 million for the Period from approximately HK$608.0 million in the corresponding period in 2019, mainly attributable to savings from the reduced number of employees as a result of organization structure optimization, partially offset by severance payment;

MANAGEMENT DISCUSSION & ANALYSIS

d) the decrease in rental and commission paid in retail channel to approximately HK$229.3 million for the Period from approximately HK$298.4 million for the corresponding period in 2019, which was due to the COVID-19 impacted revenue and reduced numbers of offline stores; and

e) the increase in product warranties and liabilities expense to approximately HK$111.3 million for the Period from approximately HK$38.6 million for the corresponding period in 2019 was mainly due to parameters updates on estimation of product warranties and liabilities obligation based on historical experience in assessment of possible outcome of the claims.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses primarily consist of salaries, R&D costs, professional service expenses, provision for the potential uncollectible receivables and other office expenses. The administrative expenses decreased by approximately HK$24.6 million to approximately HK$1,145.7 million for the Period from approximately HK$1,170.3 million for the corresponding period in 2019. The decrease was mainly due to:

a) the decrease in personnel cost to approximately HK$445.2 million for the Period from approximately HK$458.4 million for the corresponding period in 2019, which was mainly attributable to savings from the reduced number of employees as a result of organization structure optimization, partially offset by severance payment;

b) the decrease in the R&D cost to approximately HK$339.1 million for the Period from approximately HK$345.6 million for the corresponding period in 2019, basically remaining stable; and

c) other administrative expenses remaining stable.

OTHER EXPENSES

Other expenses of the Group increased to approximately HK$51.0 million for the Period from approximately HK$19.5 million for the corresponding period in 2019. Other expenses of the Group increased by approximately HK$31.5 million, which was mainly attributable to the net foreign exchange loss and impairment of property, plant and equipment due to supply chain restructure.

OPERATING PROFIT

As a result of the foregoing, the Group's operating profit increased by approximately 10.3%, or HK$40.1 million, to approximately HK$430.0 million for the Period from approximately HK$389.9 million for the corresponding period in 2019.

FINANCE INCOME

For the Period, the Group's finance income increased by approximately 33.3%, or HK$1.5 million, to approximately HK$6.0 million from approximately HK$4.5 million for the corresponding period in 2019. The Group's finance income mainly represents interest income from bank deposits.

FINANCE COSTS

For the Period, the Group's finance costs decreased by approximately 19.5%, or HK$27.7 million, to approximately HK$114.1 million from approximately HK$141.8 million for the corresponding period in 2019. The decrease was mainly attributable to a lower interest rate.

PROFIT BEFORE TAX

As a result of the foregoing, the profit before tax of the Group increased by 26.9% to approximately HK$320.7 million for the Period from approximately HK$252.8 million for the corresponding period in 2019.

The non-GAAP profit before tax of the Group increased by approximately 39.0% to approximately HK$467.0 million for the Period from approximately HK$335.9 million for the corresponding period in 2019.

INCOME TAX

The Group's income tax expense was approximately HK$62.8 million for the Period, increased by 25.1% from approximately HK$50.2 million for the corresponding period in 2019. 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 27.3% to approximately HK$257.9 million from approximately HK$202.6 million for the corresponding period in 2019.

The non-GAAP profit of the Group increased by approximately 38.5% to approximately HK$382.4 million for the Period from approximately HK$276.1 million for the corresponding period in 2019.

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 announcement. 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.

MANAGEMENT DISCUSSION & ANALYSIS

The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the years ended 31 December 2020 and 2019 to the nearest measures prepared in accordance with IFRS:

	Year Ended 31 December 2020					
		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)	Cost for measures taken in response to impact of COVID-19 (c)	Non-GAAP
	(HK$ million)					
Operating profit	430.0	43.2	–2.2	40.6	64.7	576.3
Profit before tax	320.7	43.2	–2.2	40.6	64.7	467.0
Profit for the year	257.9	43.2	–1.5	30.2	52.6	382.4
Operating margin	5.2%					6.9%
Net margin	3.1%					4.6%

	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%

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.

(c) Cost for measures taken in response to COVID-19 including: severance payment, supply chain restructure cost, impairment loss of idle fixed assets and inventories and disposal loss of certain retail stores.

WORKING CAPITAL AND FINANCIAL RESOURCES

	As at 31 December 2020	As at 31 December 2019
	(HK$ million)	
Trade and notes receivables (including trade receivables due from related parties)	1,141.2	1,087.2
Trade and notes payables (including trade payables due to related parties)	1,458.7	1,324.4
Inventories	2,061.4	1,954.5

	As at 31 December 2020	As at 31 December 2019
	(HK$ million)	
Trade and notes receivables turnover days[1]	48	45
Trade and notes payables turnover days[2]	108	100
Inventories turnover days[3]	156	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 reporting period)/revenue in the reporting period.

(2) Trade and notes 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 reporting 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 reporting period)/cost of sales in the reporting period.

The trade and notes receivables and the trade and notes receivables turnover days remain stable compared with the corresponding period in 2019.

The increase of trade and notes payables and the trade and notes payables turnover days was mainly attributable to a better credit term management.

The increase of inventories and inventories turnover days was mainly attributable to late year delayed shipments to key customers caused by disruptions in global logistics due to the continuing COVID-19 impact.

MANAGEMENT DISCUSSION & ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group's monetary assets, including cash and cash equivalents, pledged time deposits and financial assets designated at fair value through profit or loss, were approximately HK$1,725.9 million (31 December 2019: approximately HK$1,078.6 million).

As at 31 December 2020, the Group's interest-bearing bank loans and other borrowings were approximately HK$2,772.6 million (31 December 2019: approximately HK$2,753.7 million), including short-term bank loans and other borrowings of approximately HK$1,986.9 million (31 December 2019: approximately HK$892.2 million) and long-term bank loans and other borrowings with repayment terms ranging from two to three years of approximately HK$785.7 million (31 December 2019: approximately HK$1,861.5 million).

As a result, as at 31 December 2020, the Group's net debt position was approximately HK$1,046.7 million (31 December 2019: approximately HK$1,675.1 million).

CONTINGENT LIABILITIES

In the ordinary course of business, the Group may from time to time be involved in legal proceedings and litigations. The Group records a liability when the Group believes that it is both probable that a loss has been incurred by the Group and the amount can be reasonably estimated. With respect to the Group's outstanding legal matters, notwithstanding that the outcome of such legal matters is inherently unpredictable and subject to uncertainties, the Group believes that, based on its current knowledge, the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on the Group's business, financial position, results of operations, or cash flows.

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 2020, bank deposits of approximately HK$25.7 million (31 December 2019: HK$24.0 million) were pledged for business operation. Certain machinery amounting to approximately HK$10.8 million was pledged to secure bank loan granted to the Group.

GEARING RATIO

As at 31 December 2020, 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 37.4% (31 December 2019: approximately 43.2%), or 38.9% after taking into consideration the impact of IFRS 16 (as at 31 December 2019: approximately 44.8%).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group has a total of 9,375 full-time employees (as at 31 December 2019, the Group had a total of 11,180 full-time employees). For the year ended 31 December 2020, costs of employees, excluding Directors' emoluments, amounted to a total of approximately HK$1,560.8 million (2019: approximately HK$1,703.6 million). The Group determined the remuneration packages of all employees with reference to their position, competency, performance, value and market salary trend. The Group provides its employees in the PRC and other countries and regions with welfare schemes as required by applicable local laws and regulations.

On 5 November 2010, the Company adopted a share option scheme (the "2010 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 the 2010 Share Option Scheme expired on the tenth anniversary of its adoption, and to enable the Company to continue to grant share options to eligible participants as incentives or rewards for their contributions to the success of the Group, the Company terminated the 2010 Share Option Scheme and approved and adopted a new share option scheme (the "2020 Share Option Scheme") at its annual general meeting held on 25 May 2020. A summary of the principal terms of the 2020 Share Option Scheme is set out in Appendix III of the Company's circular dated 22 April 2020.

As at 31 December 2019, 211,280,000 share options were outstanding. As at 31 December 2020, there were 140,706,500 outstanding share options in total under the 2010 Share Option Scheme and the 2020 Share Option Scheme.

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.

MANAGEMENT DISCUSSION & ANALYSIS

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 72, 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 30 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; and
(xxi) 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 51, 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 51, 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 53, 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, 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. Since joining the Group, Mr. Liu has been responsible for the Group's finance, internal audit, legal affairs and investment & financing management, and has successively served as the vice president and chief financial officer of the Group. Mr. Liu received his bachelor's degree of science in 1989 and 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 was awarded the "2010 China Top Ten Outstanding CFOs" by China's "Chief Financial Officer" magazine and the "CFO of the Year" by the Hong Kong "2017 China Finance Awards".

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 53, 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 69, 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*

DIRECTORS & SENIOR MANAGEMENT

HO Kwok Yin, Eric (**何國賢**), aged 64, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Iain Ferguson BRUCE, aged 80, 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. Since 1964, he has been a member of the Institute of Chartered Accountants of Scotland 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 Yingli Green Energy Holdings Company Limited, a company listed on the New York Stock Exchange, on 6 march 2020.

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.

Mr. Bruce has over 50 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 74, 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 53, 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. 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. In addition, Ms. Chiang was appointed as a non-executive director of Yantai Changyu Pioneer Wine Company Limited, a company listed on Shenzhen Stock Exchange, on 1 June 2020. 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.

DIRECTORS & SENIOR MANAGEMENT

JIN Peng (**金鵬**), aged 45, 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.

SENIOR MANAGEMENT

Johannes SCHLAMMINGER, aged 42, 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 48, 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 60, 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 25 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 of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators). She is a holder of the Practitioner's Endorsement from HKICS.

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

Goodbaby International Holdings Limited (the "Company") together with its subsidiaries (the "Group", "Goodbaby" or "we"), is pleased to present its fifth Environmental, Social and Governance Report (the "Report"). This Report describes the Group's initiatives, plans and achievements in relation to environmental, social and governance ("ESG") matters, and records its ongoing commitment towards sustainable development. The Group takes into account the United Nations Sustainable Development Goals ("SDGs") when formulating effective corporate sustainability strategies and measures.

The content of this Report has been compiled in accordance with a set of systematic procedures, which include identifying key stakeholders, identifying and ranking important ESG issues, determining the scope of the ESG report, collecting relevant materials and data, analysing the data, and reviewing the information in the reports.

REPORTING FRAMEWORK

The Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide"), contained in Appendix 27 to the Rules Governing the Listing of Securities on 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 ESG Reporting Guide.

For the Group's corporate governance practices, please refer to pages 101 to 115 of the "Corporate Governance Report" section of the Group's 2020 Annual Report.

REPORTING PERIOD AND SCOPE

This Report covers ESG-related matters of the Group from 1 January 2020 to 31 December 2020 (the "Reporting Period"). Unless otherwise specified, the policies, statements, and ESG key performance indicator ("KPI") data in this Report cover the Group's main operational sites, including the Group's factories in the People's Republic of China ("PRC"), the United States ("U.S.") and Mexico, its offices in the PRC, Germany and the U.S., and its retail stores in the PRC. The Group will continue to assess the major ESG areas of its different businesses and major subsidiaries in determining the reporting scope of future ESG reports.

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 being confirmed by the management, this report was approved by the Board of Directors (the "Board") on 23 March 2021.

ABOUT THE GROUP

The Group is a leading juvenile products company headquartered in the PRC. Our business includes the design, research and development, manufacturing, marketing and sales of juvenile products. We focus on Germany, the U.S. and the PRC as our main sales markets, and sell to more than 90 countries, serving hundreds of millions of parenting families worldwide. The Group's brand portfolio includes many locally and internationally renowned brands, including CYBEX, gb and Evenflo. We have also established long-term strategic partnerships with other key international juvenile product brands.

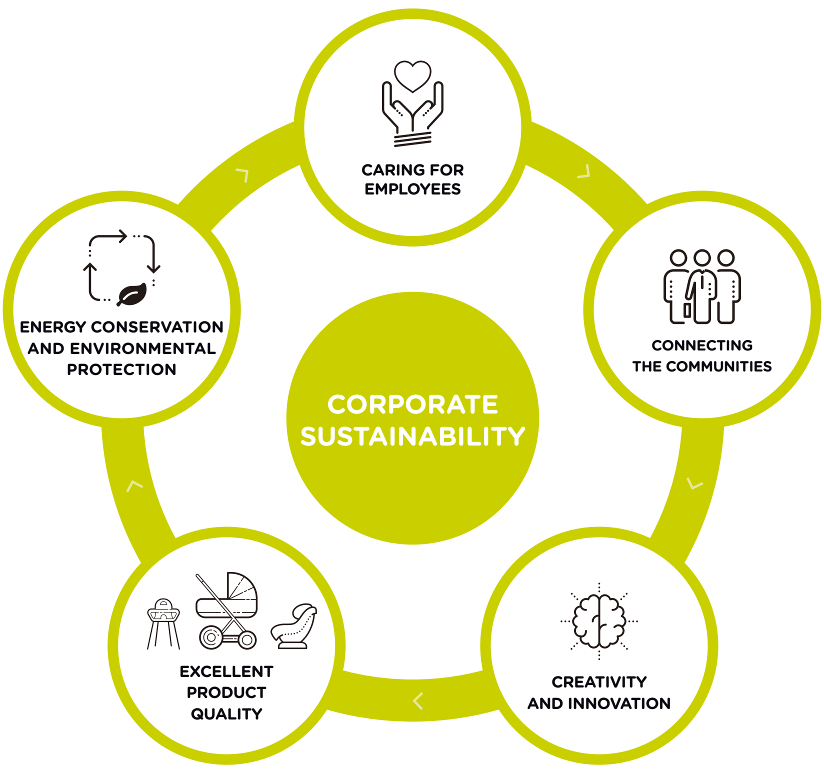
The Group recognises and supports international initiatives on sustainable development and climate change, including the United Nations SDGs and the Paris Agreement, and works to integrate their principles into its policies and operations.

Goodbaby has formulated a sustainable development framework that focuses on five areas of sustainable development: energy conservation and environmental protection, excellent product quality, creativity and innovation, caring for employees, and connecting communities. These areas are helping us pursue our goal of "caring for children, serving families, and giving back to our wider society".

Our brands include:

cybex gb evenflo cbx hd ROLLPLAY exer saucer urbini

SUSTAINABLE DEVELOPMENT FRAMEWORK



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SUSTAINABILITY DEVELOPMENT VISION

UNITED NATIONS SDGS

The world is facing multiple challenges, including poverty, inequality, climate change, environmental degradation, hunger, etc. In September 2015, the members of the United Nations unanimously approved the "2030 Agenda for Sustainable Development" and adopted 17 SDGs, which sought to solve the world's economic, social and environmental problems by 2030. In response to the "2030 Agenda for Sustainable Development" and the 17 SDGs, we identify and manage the risks and opportunities related to the SDGs. By formulating our policies towards sustainability, we endeavor to play a role in creating a better world for society and the environment. Our commitments towards the SDGs are stated as follows:

SDGs	Commitment
3 GOOD HEALTH AND WELL-BEING	**Goal 3: Good health and well-being** The Group is committed to providing safe, effective, high-quality and affordable baby products for parenting families. In order to expand our social network and help more families in need, we cooperate with different charities that promote the health, safety and development of infants and children.
8 DECENT WORK & ECONOMIC GROWTH	**Goal 8: Decent work and economic growth** The Group is committed to pursuing sustainable economic growth through diversified operations, technological upgrading and innovation, seeks to become more efficient in its resource use, and promotes green production. In terms of providing decent work, we offer fair employment opportunities and have established a "people-oriented" employment policy to protect the rights and interests of employees. We also support the physical and mental health of our employees, and provide employees with different types of training and other activities to help them develop their "best selves".
9 INDUSTRY, INNOVATION & INFRASTRUCTURE	**Goal 9: Industry, innovation and infrastructure** The Group is committed to promoting the development of the juvenile products industry and supporting technology development, research and innovation. Externally, we promote technical exchanges and cooperate with professionals from all sectors to develop innovative, high-quality juvenile products. We also participate in the formulation and revision of juvenile products industry standards related to quality and safety. Internally, we provide employees with training to strengthen their research and technical capabilities.

2020 KEY ESG PERFORMANCE

CREATIVITY AND INNOVATION

Japan G-Mark Good Design Award 2020 Best 100
Awarded to **gb FYN** Stroller

TIME 100 Best Inventions of 2020
CYBEX e-PRIAM stroller included in the list

JPMA 2020 Innovations Award
Awarded to **CYBEX branded car seats**

2020 Enterprise Standard Forerunner
(《2020年企業標準領跑者》)
Awarded to **Goodbaby** for the 2nd consecutive year

ENERGY CONSERVATION & ENVIRONMENTAL PROTECTION

- **31%** Total mass of **main pollutants in waste-water discharge**
- **8%** Total **energy consumption**
- **32%** Total **disposal volume of hazardous and non-hazardous waste**
- **15%** Total **water consumption**

EXCELLENT PRODUCT QUALITY

ADAC Test Award
run by a renowned European consumer organisation
4 CYBEX car seats won

ISO 31110 : 2020
Formulated the **international quality & safety standard** for Wheeled Child Conveyances

CONNECTING THE COMMUNITIES

- **2,796** hours devoted to **volunteer activities**
- **459,404 HKD** donated to **charity** and **volunteer organisations**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

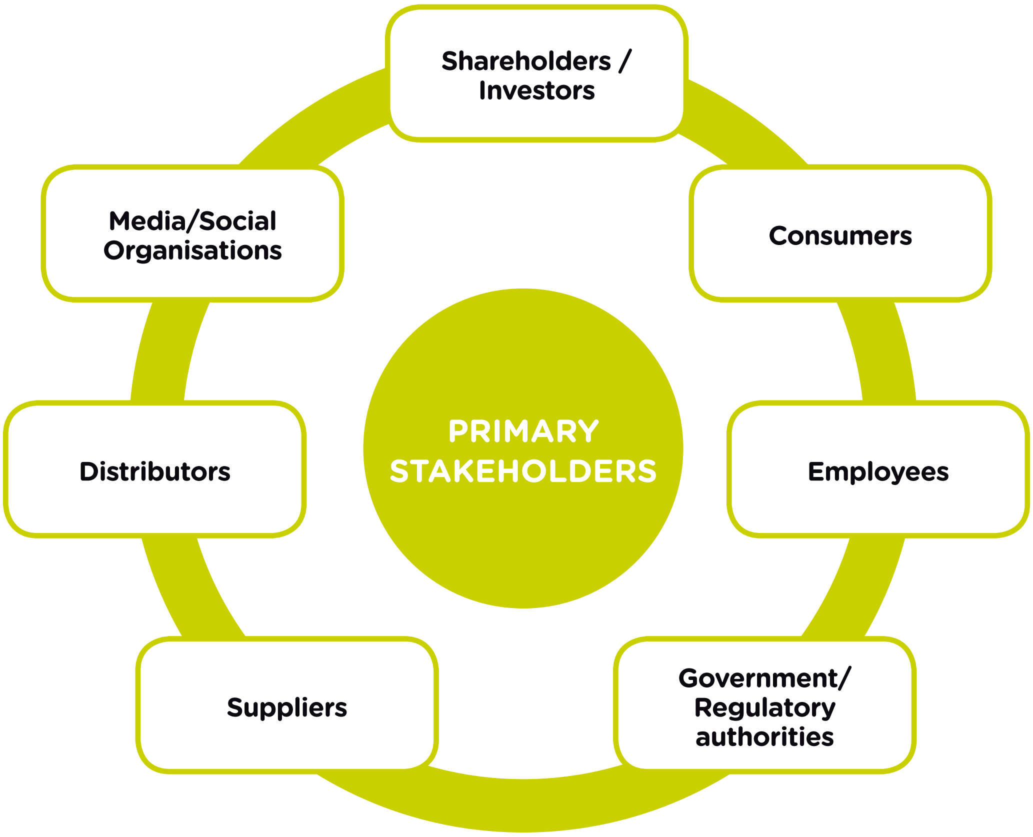
ESG GOVERNANCE

The Group has a three-tier governance structure consisting of the Board, the CEO and the ESG Working Group. The Board is responsible for setting the ESG goals and strategies for the Group; the CEO directly manages and supervises ESG work; and the ESG Working Group, consisting of dedicated personnel, is responsible for performing specific ESG actions. This top-down management approach helps the Group to increase the effectiveness of and enhance its supervision of ESG governance, its implementation of ESG strategies, and its management and control of ESG-related risks.

The Board	CEO	ESG Working Group
• Assesses and determines the company's ESG risks and opportunities; • Formulates ESG strategic plans and goals; • Ensures that the company has appropriate and effective ESG risk management and internal control systems in place; • Approves ESG related policies; and • Approves ESG reports.	• Performs ESG risk management and internal control; • Directs the work of the ESG Working Group; • Formulates ESG related policies and submits them to the Board for approval; • Confirms the ESG report, confirms the accuracy of the performance indicator data; and • Submits the ESG report to the Board for approval.	• Establishes and maintains ESG related policies; • Supervises the implementation of ESG policies and the realisation of ESG goals; • Arranges for a dedicated person to be responsible for the collection of ESG-related information and report preparation; and • Regularly reports to the management to help them evaluate whether the Group's ESG risk management and internal control systems are accurate and effective.

STAKEHOLDER ENGAGEMENT

The Group values its stakeholders are the feedback regarding its business and ESG aspects. Stakeholder participation is indispensable for the Group to continuously improve its sustainable development performance, and we maintain close relations and communications with our stakeholders in order to understand their opinions and interests. We have identified the following primary stakeholders:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We have established a range of communication channels with stakeholders that represent a transparent, fair, two-way and regular communication mechanism to enhance communication between the Group and its stakeholders. The expectations and communication channels of the relevant stakeholders are as follows:

Stakeholder Group	Key Concerns	Communication Channels	Frequency
Employees	• Employee Health and Safety • Development and Training • Remuneration and Benefits • Equal Opportunity	• Interviews with employees • Internal emails • Internal WeChat account	• Regularly as required
Shareholders/ investors	• Compliant Operations • Economic Performance • Business Strategies and Performance • Corporate Governance	• General meetings/ Investors meetings • Results announcements • Press releases and announcements	• General meeting held once a year • Other channels regularly as required
Government/ regulatory authorities	• Payment of Tax • Compliant Operations • Business Ethics • Stability in Business Operations • Resources and Energy Consumption	• Field research • Meetings • Written applications, explanations and reports	• Regularly as required
Suppliers	• Fair and Open Procurement • Business Ethics and Reputation • Supplier's Social Responsibility Performance	• Field research • Supplier assessments • Supplier conferences	• Supplier Conference held once a year • Other channels regularly as required
Distributors	• Product Safety and Quality • Innovation and Research and Development ("R&D") • Compliant Operations	• Involvement in R&D of new products • Written reports/emails • Field research	• Regularly as required
Consumers	• Product Safety and Quality • Customer Service • Business Integrity • Innovation	• Official website • Offline stores • WeChat account • Customer service hotlines • Social media	• Regularly as required
Media/social organisations	• Community Relations and Public Welfare • Product Safety and Quality	• Press releases/ announcements • Interviews/meetings • Industry summits	• Regularly as required

Through collaborating with our stakeholders, we are determined to improve our ESG performance and continue to create greater value for the wider society.

MATERIALITY ASSESSMENT

To ensure that the contents of this Report are in line with stakeholder expectations, we conducted an online stakeholder survey to help us identify the most significant economic, environmental and social impacts of the Group's value chain. The survey asked stakeholders to rank ESG issues based on their importance to the Group's strategic operations and themselves respectively, and to comment on the Group's sustainable development performance.

The three-step procedure used to prepare our materiality assessment was as follows:

First stage

- Identify and confirm our list of ESG issues according to the Group's business development and the result of the 2019 materiality assessment. The list includes 23 topics having a material impact on the economy, the environment and society, and of notable interest for stakeholders.

Second stage

- The 23 topics in the list are set as the core contents for the materiality assessment in the stakeholder survey. Stakeholders are asked open-ended questions by which they can assess the importance of the topics and express their views on the Group's ESG performance. This materiality assessment covers key stakeholders, including but not limited to employees and management.

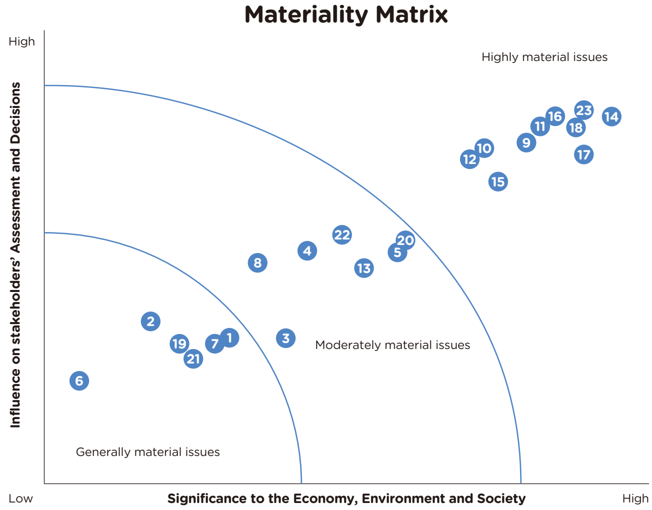
Third stage

- Compile this year's materiality matrix based on an analysis of the stakeholder survey results of the 23 topics. Review stakeholders' opinions and the materiality assessment results, discuss with management, and determine the material topics to be covered in the Report and the areas for improving ESG performance in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The figure below shows the Group's materiality matrix for the Reporting Period. The issues within the range in the upper right corner of the figure are of greater importance to the business development of the Group and of greater concern to the Group's stakeholders.

Goodbaby International Holdings Limited
Materiality Matrix



	ESG Issues
Environment	
1	Air Emissions
2	Greenhouse Gas ("GHG") Emissions
3	Energy Consumption and Efficiency
4	Water Resources Management
5	Waste Management
6	Climate Resilience
7	Packaging Material Management
Social	
8	Employment Practices
9	Employee Care
10	Employee Development and Training
11	Occupational Health and Safety
12	Labour Standards
13	Supply Chain Management
14	Product Quality and Safety
15	Intellectual Property ("IP") Rights Management
16	Customer Satisfaction
17	Customer Privacy
18	Innovation and R&D
19	Advertising and Labelling
20	Anti-corruption
21	Community Engagement
22	Economic Performance
23	Compliance with Laws and Regulations

According to the materiality assessment, stakeholders are most concerned about product quality and safety, compliance with laws and regulations, customer satisfaction, and innovation and R&D. This Report enhances disclosure of the Group's performance in relation to these areas. The Group will also use this materiality assessment for future reference in formulating its ESG strategies and policies.

The Group confirms that, during the Reporting Period, it had in place appropriate and effective management policies and internal control systems for ESG matters, and that the disclosed content of this Report meets the requirements of the reporting guidelines.

CONTACT US

The Group welcomes opinions and suggestions from stakeholders. To comment on this Report or our performance in sustainable development, please email us at info@goodbabyint.com.

INTEGRITY IN OUR OPERATIONS

As a company dedicated to improving the lives of families with children, we are committed to maintaining the highest standards of business ethics and integrity in our daily operations. The Group strictly abides by the laws, government regulations, and other relevant regulations of other regulatory agencies in its respective operations. It has also established internal policies to preserve its business integrity. The Group does not tolerate any form of corruption, fraud or other violations of professional ethics, and always seeks to conduct its business in a transparent, honest and fair manner.

The Group complies with local laws and regulations in all the markets in which it operates. We emphasise fair competition and strongly oppose monopoly, illegal participation in competition, destruction of the market environment and competition rules, and other unfair competition methods. Goodbaby has established a "Code of Business Conduct" which lays out the company's ethical values.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations relating to bribery, extortion, fraud and money laundering that would have a significant impact on the Group. Please refer to Appendix 1 for the relevant laws and regulations.

ANTI-CORRUPTION

The Group strictly complies with anti-corruption laws and regulations in its operating locations and resolutely opposes all forms of bribery and corruption. We have increased our anti-corruption efforts by strengthening our internal control mechanisms and formulating an "Anti-Corruption Policy" and a "Conflict of Interest Policy", to ensure that all employees uphold our business philosophy of delivering high-quality products in a lawful and honest manner. We require our employees and relevant external parties to engage with our "Anti-corruption Policy" and "Conflict of Interest Policy" so that they are explicitly familiar with our integrity principles.

We have also established a "Whistleblowing Policy", and set up different reporting channels (including a reporting hotline) to encourage managers, employees, suppliers, and business partners to report potential violations. We have established a whistleblower protection system to ensure that whistleblowers are protected from unfair dismissal, victimisation or unwarranted disciplinary action.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Integrity Training

The Group's anti-corruption strategy is based on prevention, communication and training. We regularly advocate our anti-corruption policies and regulations to all employees to cultivate a commitment to integrity. At the same time, the Group's legal compliance department and internal audit department work to maintain a transparent internal control environment that is in compliance with all relevant laws, regulations and commercial norms.

During the Reporting Period, our legal compliance department and internal audit department provided information about our anti-corruption and whistle-blowing policies, and practical training on these issues, to employees around the world. This was done in the form of on-site and online lectures, which have enhanced employees' ability to respond correctly to non-compliant behaviours such as business misconduct, personal misconduct and fraud.

Online and onsite lectures were conducted by the internal audit department

R&D AND INNOVATION

The Group's insistence on innovation, quality, and standards and its exploitation of China's intelligent manufacturing capabilities makes it becomes a benchmark for the international juvenile products industry. We promote technological innovation, exploration, exchange and development on multiple platforms. In the design of juvenile products, we take into account issues of safety, technology, practicality, creativity and environmental protection in our pursuit of innovative and high-quality products. To cater for consumers in different regions and countries, we have established seven R&D centres in Europe, the PRC and the U.S.. We develop products with different characteristics in accordance with local markets and local consumer habits and lifestyles. In addition, we have established an Intelligent Technology and Innovation Center, where high-tech applications are developed through the use of advanced technologies such as artificial intelligence ("AI") and Internet of Things ("IoT").

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PROMOTING INDUSTRY-UNIVERSITY-RESEARCH COOPERATION

During the Reporting Period, the Group launched a number of research collaborations with academia, outlined in the table below.

Academician Tan Jianrong Recruited as Chief Scientist

- Mr. Tan is an academician of the Chinese Academy of Engineering and an expert in mechanical engineering and artificial intelligence. He is mainly engaged in research in the areas of mechanical design and theory, computer-aided design and graphics, digital design and manufacturing.
- Mr. Tan has been the chief scientist of the Group since April 2019, and has established an academic workstation at Goodbaby.
- Mr. Tan is focusing on the application of advanced technologies such as AI, fifth-generation mobile networks ("5G"), and IoT to children's lives.

Industry-University Research Cooperation with Suzhou University

- The Group has launched an industry-university research cooperation project with Suzhou University which is drawing on the talents and technology resources of the university to drive innovations in the Group's technological development.
- The current focus of the collaboration with Suzhou University is the development of Computer Aided Engineering ("CAE"). Researchers are exploring ways to replicate and expand CAE capabilities from safety seats to baby strollers to improve design efficiency.

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

- In April 2019, the Group and Qingtao New Energy jointly funded and established Suzhou Goodbaby Qingtao Technology Service Co., Ltd.. Utilising the technology of Qingtao New Energy and Goodbaby's brand and networks, the company aims to improve the lives of mothers and babies through technology by incubating cross-border application projects utilising advanced technologies.

Participation in the Seamless Joint Innovation Lab

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

OUTSTANDING ACHIEVEMENTS IN 2020

The Group is committed to providing innovative products to improve the quality of life for parenting families and children. During the Reporting Period, we continued to make great achievements.

Japan G-Mark Good Design Award 2020 Best 100

On 1 October 2020, gb's new generation FYN stroller was recognised as one of the "Best 100" products by the Good Design Award for its outstanding technology and design. FYN is the first-ever stroller that have been recognised by the Good Design Award. The G-Mark Good Design Award was founded by Japan's Ministry of International Trade and Industry in 1949, and is one of the most authoritative and influential design awards in Asia and one of the four major design awards in the world.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CYBEX e-PRIAM listed on TIME's 100 Best Inventions of 2020

The e-PRIAM stroller is equipped with smart sensors on the handlebar which can detect inclines and uneven surfaces to give parents an extra boost when needed. This function makes the stroller more safe and user-friendly.

IP RIGHTS MANAGEMENT

The Group has been leading innovation for 31 years, and continues to introduce new products. We have established a four-in-one intellectual property rights system (patents, standards, trademarks, and copyrights), which helps to ensure that all our development initiatives are innovation-driven and of the highest quality.

- **Pilot Studies:** We draw on global resources to analyse current developments in juvenile products, paths of technological innovation, and market trends relating to key technology breakthroughs.

- **Patent Portfolio:** Our core patents relate to solutions to technological gaps and key problems in the field, and we are continually extending our patent portfolio to cover emerging developments in juvenile products.

- **IP Analysis and Utilisation:** Our big data platform for patent information analysis can search and analyse global patent data. It provides us with multi-level, multi-dimensional indexing of patent data from different technological subcategories. This initiative has significantly improved our ability to utilise global patent technology information related to product development.

During the Reporting Period, 462 patents and 72 trademarks were awarded to the Group. As of 31 December 2020, the Group held a total of 10,600 patents and 2,362 trademarks.

Since establishment, the Group safeguards its IP rights by administrative and legal means. In the PRC, we mainly protect our IP rights through online tracking, customs cooperation, and rights protection litigation. In other regions, our staff in marketing department and product development department notify the legal department as soon as they discover competitive products or marketing materials that may infringe Goodbaby's IP rights, after which legal personnel conduct follow-up investigations.

During the Reporting Period, we discovered, reported and addressed a series of IP infringement cases, including a "Guangzhou Aofei, Taicang Xinqile Baby Stroller Infringement Case", a "Shanghai Xier, Zhejiang Chenhui" case, and an "Invention Patent Infringement Case". Addressing these cases not only safeguarded the Group's legal rights and interests, brand, and reputation, but also helped to protect the safety of users.

"4.26 World Intellectual Property Day" Conference

On the 20th World Intellectual Property Day on 26 April 2020, the Group held a special "4.26 World Intellectual Property Day" meeting with leaders of the Kunshan Administration Bureau for Industry and Commerce in the PRC, in which infringement cases and the status of corporate intellectual property protection were discussed.

PRODUCT QUALITY AND SAFETY

As a world leading juvenile products corporate, product quality and safety are of paramount importance to us. Our motto for quality assurance requirements is "Absolute safety and ultimate user experience", and we regard quality as part of our social responsibility. We have formulated a "Product Safety Management Policy" based on "Quality First, Zero Defects and Zero Tolerance", and strive to achieve the quality goal of "Building Goodbaby as a world-class enterprise through excellent quality and service".

During the Reporting Period, the Group was not aware of any material non-compliance with related laws and regulations related to product and service quality that had a significant impact on the Group. Please refer to Appendix 1 for the relevant laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

QUALITY AND SAFETY MANAGEMENT

Our quality management activities are designed to achieve four goals: (1) to improve the quality and safety management system; (2) to incorporate the requirements of the automotive industry and the food industry; (3) to take the lead in the development of global standards; and (4) to maintain the largest and most advanced state-recognised laboratory in the industry. Based on the GB/T 19580 Criteria for Performance Excellence, we have formulated the Goodbaby Excellence System ("GBES"), a comprehensive quality management system for preventing quality defects. The system incorporates not only the ISO 9001 Quality Management System, but also quality and safety standards from different industries, such as the automotive industry's TS 16946 (Special Requirements for the Implementation of ISO 9001 for Automotive Industry Organisations Providing Production Parts and Relevant Service Parts), the food industry's HACCP (Hazard Analysis Critical Control Points System), and ISO 17025 (General Requirements for the Competence of Testing and Calibration Laboratories) which relates to laboratory quality and safety.

Since 2016, the Group's production plants have to operate according to the 8 Process Quality Control Basis ("8QB") in the quality management of the production process. The 8QB includes 5S[1], error prevention, first item qualification, self-inspection, final inspection, controlled rework, red and yellow bins, and QR-CSI (quick response & continuous standard improvement). We review the 8QB every year. During the Reporting Period, the audit results showed the scores of each manufacturing plants have a significant rising trend compared with the previous year, indicating the quality control management becomes more mature.

Remark:

1. *The 5S are Seiri, Seiton, Seiso, Seiketsu, and Shitsuke. 5S encourages employees to develop habits of cleanliness and orderliness in the workplace, and improve the safety and health of the working environment. To improve employees' awareness of 5S, we conduct workshops for employees of each factory.*

During the Reporting Period, the Group worked hard to build the Goodbaby Core Procedure ("GBCP") as a reference for the management and implementation of its management system. GBCP has 6 subsystems: leadership (including finance and information), customer system (including brand, blue-chip and sales), development (including product & process development and project management), supply chain production, supply chain cooperation and human resources. Through the implementation of a good management system, we can achieve continuous improvement in S (safety), Q (quality), C (cost), D (delivery), and morale. It is expected that the update and release of all documents and training of GBCP will be completed by the end of 2021.

We encourage employees to share their knowledge and ideas through regular round-table conferences between management and employees. Different topics such as production technology, product function, product quality improvement are discussed during the conferences.

RETAIL QUALITY AND SAFETY MANAGEMENT

In order to protect the health and safety of consumers, and to prevent and eliminate the potential risk of defective products, we have established a safety committee that is responsible for the overall management of product safety and which closely monitors the quality of sold products. If a defective product is found, we will carry out an investigation within 24 hours, and the safety committee will analyses the product and associated market risks. If the product needs to be recalled, we will formulate and implement a recall plan based on the management system. During the Reporting Period, we had no product recalls due to product quality and safety issues.

With the proliferation of third-party consumption assessments and consumption guides offered by product evaluation agencies, consumers are expecting better product quality and upgrading accordingly. In response, the Group has set up a "Product Excellence Team" that is composed of members from the Quality Center with the support from different departments such as product and R&D departments. The mission of the team is to strive to achieve high-quality products. Besides, we has set up an internal standard (QR). Through setting product evaluation standards, we are able to provide high-quality products to our customers.

The Group's product quality was widely recognised during the Reporting Period. A range of our products, including strollers, bicycles, wet wipes, children's shoes, talcum powder and jumpsuits, received the best ratings (including first, outstanding, five-star, recommended and excellent) from eight product evaluation agencies including the Hong Kong Consumer Council, the Shenzhen Consumer Council, the Nanjing Market Supervision and Administration Bureau, the Shanghai Consumer Insurance Commission, the Quality Lifestyle Circle, and Chinese Consumer magazine. In the "Child Stroller Performance Evaluation Specification" published by the China Toys and Baby Products Association, multiple Goodbaby products received five-star rating, indicating that our products are not only of high quality but also user-friendly.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ISO9001 Quality Management System Standards Training

In June 2020, the Group hired external lecturers to conduct ISO9001 quality management system standards training. The training enhanced the professional capabilities of the Group's employees in relation to the quality management system, products and processes.

QUALITY ACHIEVEMENTS

The Group's participation in various quality-related activities and awards brought valuable feedback on current product quality, as well as offering opportunities to promote our success in product quality management.

The Group has established a solid reputation for its product quality and has won many awards related to product quality and product safety in the PRC and abroad. During the Reporting Period, the Group was awarded the title of National Demonstration Enterprise for Product and Service Quality and Credit, while gb and CYBEX products repeatedly achieved the highest scoring and recommendations from third-party product evaluation agencies in Europe such as StiWa, ADAC, ICRT, and UAMTC.

ADAC Test Award

ADAC is a renowned European consumer organisation. In May 2020, four CYBEX car seat products received the highest rating of "Best In Class" in the child car seat test conducted by the ADAC. CYBEX Solution Z i-Fix ranked the highest among all the car seats.

Driving Industry-wide Quality Development

The Group leads and participates in the formulation and revision of quality and safety-related juvenile products industry standards, enhancing its status in the industry and sharing its experience for the benefit of the industry. As at 31 December, 2020, the Group had participated in the formulation of 222 domestic and international standards.

International Standard

The international standard ISO 31110:2020 for strollers, for which the Group led the formulation, was officially released in December 2020.

We established the Secretariat of ISO/PC 310 for Wheeled Child Conveyances to engage in research on standards for international children's strollers and promote the formulation of this standard. During the Reporting Period, the committee upgraded from the Project Committee ("PC") to the Technical Committee ("TC").

China National Standards

The Group is playing its part in improving China national standards for children's stroller product quality through its participation in various quality-related activities and standards formulation and improvement. Over the years, we have formed 12 professional standardisation technical committees, and have been involved in the drafting and development process for 14 standards, including standards for "Crib Furniture", "Infant and Toddler Waist Stool Baby", "Child Stroller Performance Evaluation Specification", "General Requirements for the Restriction of Toxic and Hazardous Chemical Substances in Consumer Products", "Smart Consumer Quality Safety Supervision Guidelines", "Smart Consumer Quality Safety Improvement Guidelines", "Children's Balance Scooter Technical Specifications", "Infant and Children's Furniture Safety Technical Specifications" and "Children's Products General Safety Requirements National Standards".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, we were once again selected as "2020 Enterprise Standard Forerunner" by the China Market Supervision and Administration Bureau, indicating that the Group is in the leading position in the industry. We were also awarded the title of National Furniture Standardisation Advanced Collective by the National Furniture Standardisation Committee and the Jiangsu Quality Association for Advanced Member Units of the Jiangsu Quality Association, in recognition of our contributions to standardisation work.

Selected as Enterprise Standard Forerunner in China Again in 2020

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

At the Annual Summit of Enterprise Standard Forerunners, several standards developed by the Group, as the representative of the juvenile products industry, were selected in the list of 2020 Enterprise Standard Forerunners.


证书编号：ESF2020-0000C18115008401

企业标准“领跑者”证书

ENTERPRISE STANDARD FORERUNNER

好孩子儿童用品有限公司：

贵公司企业标准 Q/GTS B1101-2018《婴幼儿及儿童机织服饰》经评估荣获 2020 年企业标准“领跑者”。

评估机构：中纺协（北京）检验技术服务有限公司

发证日期：2020 年 12 月 19 日

领跑者

本证书及相关信息在企业标准“领跑者”管理信息平台（http://www.qybzlp.com）上查询

CUSTOMER SATISFACTION

The Group aims to deliver a high-quality service experience to consumers and customers. In the PRC, we have formulated customer service management systems, standards and norms based on our "Management Procedures for Customer Service Communication" and "Management Procedures of Fault Reporting by Users". After-sales services are available to all our customers. We will continue to explore ways of improving service quality across the entire lifecycle of products.

We have established customer service hotlines and online customer service channels that are accessible via email, social media, and apps. Customers who purchase products through both offline and online channels can call the 24-hour hotline to arrange for repair, consultation or installation services. Besides, we have established a customer management system ("CRM") that caters to customers in the PRC and abroad.

The Group cooperates with distributors to provide offline customer services in the department stores around the world. In the PRC, we operate 36 service centres and 830 designated service stations, forming a nationwide joint warranty network that provides reliable, trustworthy, and convenient services. During the Reporting Period, we become one of the companies that accept return of goods unconditionally.

In PRC, the User Service Center is the first contact point for our users with problems. Its staff are trained to be warm and considerate and to convey the Group's positive corporate vision to every parenting family. We improved user experience during the Reporting Period, especially in terms of quick response to user questions and answers. The following are the main changes made:

User self-service	The User Service Center has established a self-service system, meaning that users do not need to call the User Service Center to make a repair request but can instead submit their repair request directly into the system. After submission, the User Service Center will arrange a professional customer service expert to provide relevant instructions. This not only helps solving the customer problems quickly, but also alleviates the pressure on phone personnel. At present, more than 50% of repair requests are made via self-service submissions.
Intelligent online customer service	To reduce service waiting time and improve users' service experience, the User Service Center has upgraded from its original purely manual customer service system to a mix of intelligent customer service and manual customer service system. The upgraded system can answer common questions at the front line, reducing waiting time for online consultations. Statistics show that since its launch, the problem matching rate has reached more than 70%, enabling the User Service Center to solve more than 50% of problems and reducing the manpower allocation by nearly half.
Cross-departmental collaboration	To improve employees' technical skills and problem-solving skills, we have cooperated with the quality department, the factory and the business department to provide training to employees in the User Service Center. So far, training has included CYBEX product knowledge and disassembly skills, bicycle debugging skills, and identification of faulty accessories.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMPLAINT MANAGEMENT

We value customers' requests and have established a customer communication process through our global marketing service system for maternal and juvenile products that provide customers with rapid complaint resolution. In cases where products are found to have potential risks, we send quality alerts and follow up to solve them as soon as possible. For its key product models, the Group has established a cross-departmental collaborative project handling team to consult with customers in real-time on feedback issues until they are resolved.

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

Complaint received

- Handled by dedicated staff

Response

- First response is given within two hours of complaint being received

Problem solving

- Dead on arrival (i.e. product is defective or broken on arrival): We replace 'dead on arrival' products with new products
- Product returned: Case handled within three days and closed within seven days

We collect and track all internal and external complaints from customer outside of the PRC, including complaints posted on social media platforms. The complaints are reported on and reviewed at our regular Customer Perspective meetings, attended by the senior management.

During the Reporting Period, we further optimised our customer complaint handling and management processes in the following ways:

- **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.

- **Standardised 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.

We also monitor and analyse the overall complaints situation and the complaint rate trends for each product, seeking to identify and solve the root cause of each problem.

SATISFACTION SURVEY

Each year, the Group conducts a customer satisfaction survey in accordance with its "Customer Satisfaction Control Procedures", "Customer Satisfaction Evaluation Procedures", and other systems. The survey includes eight project modules, including product safety, product appearance, and on-time delivery rate. Once the survey has been completed, we investigate any low-scoring modules and customer complaints, and develop improvement measures. We require departments responsible for problems to set up specific improvement projects and develop improvement goals and action plans. In recent years, the Group's customer satisfaction rate has risen steadily, and for the Reporting Period it reached 86.10%.

CUSTOMER PRIVACY

The Group implements high security and confidentiality standards to protect the privacy of personal data, and is committed to maintaining and protecting personal data. We strictly abide by the relevant laws and regulations of the places where we operate, such as the "Cyber Security Law of the People's Republic of China" and the "EU General Data Protection Regulation". We continue to implement the management principles defined in our "Information Security Policy" for the collection, storage, and use of employees, customer, and other business information on the Internet. We track and evaluate information security risks in a timely manner and strive to identify and address problems as soon as possible. As for information utilisation, we restrict the level of information that employees can access and their operating authority. Employees can only access information related to their work, thereby reducing the risk of data leakage.

ADVERTISING AND LABELLING

The Group attaches great importance to the risks that relate to the product label. We strictly regulates and inspects all product labels to ensure that the instructions and data on them are consistent with the actual products. Inspection and verification takes place to ensure that labels do not contain false product descriptions, misleading or incomplete data, false markings or misstatements to protect the interests of customers. During the Reporting Period, the Group did not find any material violations of laws and regulations related to product descriptions.

Live broadcast "Cloud Sale" in Response to the Coronavirus Disease 2019 ("COVID-19") Pandemic

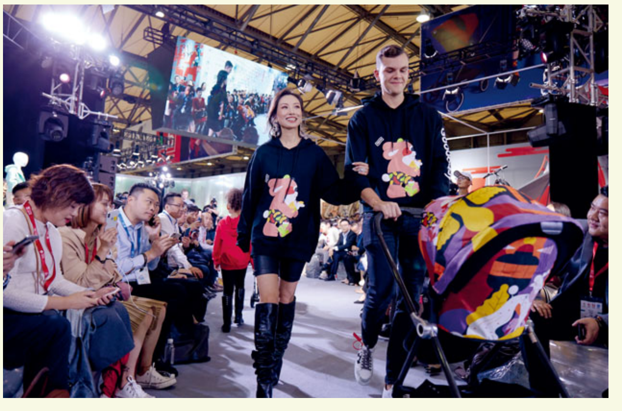
In response to the COVID-19 pandemic, the Group organised a "Cloud Sale" that took advantage of online platforms to reach more consumers and boost the consumer market for juvenile products. The Group can attract online traffic through offline channels and continue to dig deeper into user value. The COVID-19 pandemic has not slowed down the process of innovation and development of the Group, and we strive to turn the crisis into business opportunities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Embracing Generation Z, the Integration of Traditional Culture and New Culture

During Goodbaby's Day on 1 June 2020, the Group launched a "Generation Z, We Advocate" campaign that involved presenting several creative short videos. "Freedom" and "Not to be labelled" were the theme of this event. The Group hopes to demonstrate its determination to persist in innovation through this activity.

The Group also launched a design based on "Su Embroidery", one of China's four famous embroidery styles, for its stroller product, as a way of recognising and promoting intangible cultural heritage.



New "Micro Variety Show" Live Broadcast, Focusing on Current and Past Parenting Views

In view of the current trend for live-streaming events, the Group has established a live broadcast website on 23 August 2020. The show used an interview format to address parenting issues. Under the theme of "New and old parenting views, fight if you are brave enough!", the show invited guests to discuss different parenting topics such as nurturing, washing, sleeping, and travelling. The discussions addressed issues of inter-generational psychology, the scientific basis for parenting, and managing real-life cases, all of which resonated with netizens.

ENVIRONMENTAL PROTECTION FOR THE LONG TERM

Companies around the world are facing increasingly environmental management challenges. As an international corporation that values and advocates sustainable development, the Group has upheld the concept of caring for nature and protecting the environment to minimise the potential impact on the environment. We seek breakthroughs in green development, and strive to improve environmental protection by conserving energy and resources, reducing waste, and preventing pollution. We apply "green management" concepts across our production and operation processes, and have formulated an "Environmental Management Manual", an "Environmental Management Accountability System", and a set of "Environmental Hygiene Greening Management Rules".

The Group's eleven production plants, located in the PRC, the U.S. and Mexico, together with its hundreds of our self-operated outlets around the world, have improved their environmental management and operating efficiency in ways that are building a solid foundation for the Group's sustainable development. In particular, we are continuing to bring our environmental management policies and procedures in line with the ISO 14001 Environmental Management System in the PRC. Our Ningbo plant has obtained ISO 14001 certification.

During the Reporting Period, the Group did not have any violations of relevant local environmental laws and regulations with respect to air and greenhouse gas, emissions, water and land pollution, and hazardous and non-hazardous waste that have a significant impact on the Group. For details about the Group's compliance with laws and regulations related to environmental management, please refer to Appendix 1.

EMISSIONS MANAGEMENT

Through technical renovation and upgrade, we are striving to reduce the environmental impact of our production and operations, increase investment in environmental governance, upgrade our environmental protection equipment, further reduce wastewater and exhaust gas emissions, and strengthen and optimise our solid waste management and disposal processes.

EXHAUST GAS EMISSIONS

We strongly advocate clean production, which can effectively control and reduce organic exhaust gas emissions. In this respect, we have formulated a set of "Exhaust Gas Management Regulations" that include measures such as optimising process control, improving the level of exhaust gas treatment, and improving environmental management capabilities. Within the Group's business operations, exhaust gas emissions are mainly derived from production plants and consumption of petrol, diesel and Liquefied petroleum gas ("LPG") of vehicles, and the following emission reduction measures are taken:

- Monthly maintenance is carried out on company vehicles to optimise fuel consumption, thereby reducing carbon emissions and exhaust gas emissions;
- Substandard trucks are removed from the fleet in accordance with regional emission policies;
- Regular diesel and petrol are purchased, and annual inspections are conducted to ensure that vehicles meet relevant emission standards;
- Older machinery is replaced with high energy efficiency machinery;
- Monthly inspection is curried out and rewarded for production plants, and problems discovered are solved promptly;
- Fuel storage and emissions meet the requirements of national standards; and
- Measures are taken to reduce exhaust gas emissions, and relevant measures will be described in the section "GHG Emissions" under this aspect.

The Group has continued to improve its data collection mechanism. During the Reporting Period, the Group newly included the emissions from vehicles. As a result, the exhaust gas emissions increased during the Period Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's exhaust emission performance was as follows:

Exhaust Gas Emissions[2]	Unit	2019	2020
Nitrogen oxides (NO_x)	tonnes	N/A	0.85
Sulphur oxides (SO_x)	tonnes	0.30	0.60
Particular matter (PM)	tonnes	1.49	0.92

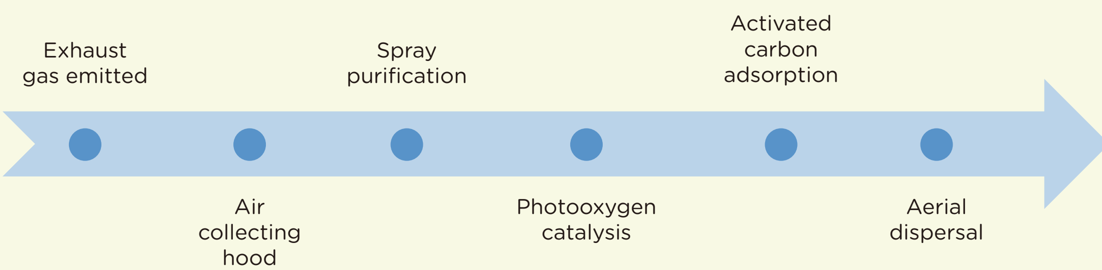
Remark:

2. *This Report does not disclose the VOC emissions in the production process as the amount is insignificant and difficult to calculate.*

Goodbaby Pingxiang Industrial Park Exhaust Gas Treatment Equipment Modification Plan

Due to government concerns about the exhaust gas emissions emitted by the Pingxiang factory, the Group developed plans for carrying out advanced treatment of exhaust gas emissions from the spraying line and adding treatment equipment (spray + photooxygen + activated carbon) in May 2020. The exhaust gas treatment device is able to remove up to 90% of VOC emissions. After receiving photooxygen and activated carbon treatment, emissions are more stable and now meet the latest environmental protection requirements.

Exhaust Gas Treatment Process



Waste gas treatment device (spray + photo oxygen + activated carbon)

Exhaust Gas Improvement Project at the Stroller Factory

During the Reporting Period, exhaust gas emitted by the hot-melt adhesive process for box sealing at the stroller factory was collected and treated before discharge to reduce air pollution.

GHG EMISSIONS

The Group's GHG emissions mainly derived from direct GHG emissions generated from combustion of fossil fuel such as petrol, diesel, natural gas and LPG (Scope 1), and energy indirect GHG emission from purchase electricity (Scope 2). We have improved our daily management practices and enhanced our equipment in ways that have effectively reduced GHG emissions in our production activities and operations.

The Group has phased out the use of energy-intensive air compressor since 2019 in the PRC. As of 31 December 2020, the Group had replaced seven of its original air compressors with a permanent magnet two-stage compressor, which has greatly reduced energy consumption.

GHG emissions are being further reduced via the diesel forklift replacement project, under which our diesel forklifts are being completely phased out and replaced with electric forklifts. As of 31 December 2020, only six out of the sixty-two forklifts owned by the Group are still running on diesel, and these will soon be retired.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, our U.S. manufacturing plant purchased a new energy-efficient injection molding machine. The new machine consumes less energy while maintaining high performance, increasing the energy efficiency of our operations.

The Group has continued to improve its data collection process. During the Reporting Period, the Group newly included the emissions from vehicles. As a result, the GHG emissions increased by approximately 9.62%, from approximately 48,712 tCO_2e in 2019 to approximately 53,400 tCO_2e in 2020.

The Group's GHG emissions performance was as follows:

GHG Emissions[3]	Unit	2019	2020
Direct GHG emissions (Scope 1)	tCO_2e	4,349	2,983
Energy indirect GHG emissions (Scope 2)	tCO_2e	44,363	50,506
Total GHG emissions (Scope 1 and Scope 2)	tCO_2e	48,712	53,489
Intensity [4]	tCO_2e/million revenue (HK$)	5.55	6.44

Remarks:

3. *GHG emission data is presented in terms of carbon dioxide equivalents and is based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, "How to prepare an ESG Report – Appendix II: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange, the latest released emission factors of China's regional power grid basis, and the"Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5).*

4. *During the Reporting Period, the Group's total revenue was approximately HKD$8,305 million (2019: HKD$8,777 million). This data will also be used for calculating other intensity data in the Report.*

WASTEWATER DISCHARGE

The Group's primary source of the wastewater is its production plants in the PRC. We have formulated a set of "Wastewater Management Regulations" to ensure we remain in strict compliance with all local laws and regulations relating to wastewater disposal.

We have obtained a pollutant discharge permit from the Suzhou Municipal Bureau of Ecology and Environment, and have installed real-time water quality monitoring instruments in our Kunshan Park and Pingxiang factories to monitor the relevant water quality parameters (e.g. chemical oxygen demand (COD), ammonia nitrogen, pH value, flow rate etc.). We carry out real-time monitoring to ensure the total amount and concentration of emissions meet the requirements of the pollution discharge permit. In May 2020, the Pingxiang factory responded to the government's request to solve the problem of wastewater monitoring by building a monitoring station to carry out real-time monitoring of industrial wastewater outlets. In addition, Kunshan Park uses 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.

The main pollutants of the Group's wastewater are Chemical Oxygen Demand (COD) and Total Nitrogen (TN).

The wastewater discharge of the Group's production plants in the PRC is as follows:

Wastewater Discharge	Unit	2019	2020
Chemical Oxygen Demand (COD)	Tonnes	0.47	0.26
Total Nitrogen (TN)	Tonnes	0.20	0.20

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOLID WASTE MANAGEMENT

The Group is committed to reducing waste generation during operations and raising employees' awareness of waste reduction and recycling. The general solid waste of the Group mainly includes general industrial waste generated in the production plants, and domestic waste generated in the offices. We have continued to optimise the management process of various types of waste by reference to our "Waste Management Regulations", "Waste Treatment Management System", "Hazardous Waste Collection and Storage Management System", and "Hazardous Waste Disposal Process", which layout details for the placement, storage, handling and disposal of waste according to its nature.

Hazardous Waste	Non-recyclable Waste	Recyclable Waste
Includes waste activated carbon, waste paint residue, waste oil, etc.. These are classified and stored at designated locations, with identification signs set up. A qualified third party is entrusted for their disposal in accordance with relevant laws and regulations, who safely transfers them to the disposal unit in accordance with compliance requirements.	Includes office and domestic waste etc.. The sanitation department or property company and other qualified disposers are entrusted to remove it regularly.	Includes waste plastics, scrap metal, waste packaging materials etc.. These are recycled independently or entrusted to a third party for recycling.

In response to national and local laws and regulations in the PRC and new requirements for solid waste management introduced by the regulatory authorities, the Group carried out 19 waste sorting staff training activities during the Reporting Period. More than 3,800 employees from 32 departments participated. The activities introduced the importance of waste sorting and educated employees on sorting waste correctly. Employees actively participated in waste sorting activities and promised to conduct waste sorting. We also rewarded departments that had implemented waste sorting actively, encouraging them to continue their efforts and act as role models for all.

Waste generated from the Group's production process, retail stores and offices decreased in 2020 compared with 2019. This was due to the slowdown in production, the forced temporary closure of Chinese retail stores from the end of January to early April, and the implementation of home office work arrangements in the U.S. during the COVID-19 pandemic.

The amount of solid waste disposed of by the Group was as follows:

Waste Disposal	Unit	2019	2020
Hazardous waste disposal amount	Tonnes	520	195
Hazardous waste intensity	Tonnes/million revenue (HK$)	0.06	0.02
Non-hazardous waste disposal amount (office and domestic waste)	Tonnes	2,203	1,662
Non-hazardous waste intensity	Tonnes/million revenue (HK$)	0.25	0.20

Waste Recycling	Unit	2019	2020
Waste plastic	Tonnes	611	704
Metal scraps	Tonnes	828	780
Waste packaging materials	Tonnes	778	1,431
Other ancillary waste materials	Tonnes	315	325
Total non-hazardous waste recycled	Tonnes	2,532	3,240
Non-hazardous waste recycled intensity	Tonnes/million revenue (HK$)	0.29	0.39

Implementation of the New Solid Waste Law

On 29 April 2020, the 17th meeting of the Standing Committee of the 13th National People's Congress reviewed and approved a revised Law on the Prevention and Control of Environmental Pollution by Solid Waste. This Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (2020 Revision) came into effect on 1 September 2020. In order to respond quickly to the latest law, the Group has begun providing employees with training on the updated solid waste law, and has completed the solid waste inspection in accordance with the law during the Reporting Period.

USE OF RESOURCES

The Group is committed to developing advanced production equipment in the industry and continuously explores the possibility of reducing energy and resource consumption. We encourage factories to take effective measures on improving the resource efficiency, and set achievable sustainable development goals to conserve resources such as energy and water.

ENERGY EFFICIENCY

The Group has been working to reduce the energy consumption of all its business units. This involves fostering a resource conservation culture across our daily operations, and adopting technically feasible and economic measures for using electricity more effectively and rationally.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, we took the following measures to reduce electricity consumption.

- Lighting management: Lighting usage time is controlled. For example, time controllers are installed in indoor public areas and stair corridors of office areas. We have also assigned a responsible person to turn off the lighting of their respective responsible areas and carry out regular inspections.

- Water dispenser management: The water dispensers in each office and production area are required to be turned off during non-office hour, managed by a designated responsible person. In addition, the water dispensers are time-controlled. For example, water heaters in the office pantry are turned on at regular times, and the power is turned off from June to October in summer.

- Air conditioning management: The temperature of the office area and production area have been appropriately adjusted. For example, air conditioning is turned on 15 minutes before a meeting and turned off 15 minutes before the end of the meeting; and air conditioning is turned off 30 minutes before the end of the office hours.

We also have different energy projects such as increasing the proportion of alternative energy usage and conducting energy audits that are in progress. We aim to further reduce the total energy consumption of the Group.

Compared with 2019, energy consumption decreased. The main reason is that the diesel vehicles have been replaced with more energy-efficient and environmentally-friendly electric vehicles in the factory area in the PRC. In addition, the slowdown in production due to the impact of the COVID-19 pandemic brought a decline in energy consumption.

The Group's energy consumption was as follows.

Type of Energy	Unit	2019	2020
Petrol	MWh	945	1,339
Diesel	MWh	4,023	3,846
Natural gas	MWh	15,324	8,208
LPG	MWh	94	82
Total direct energy consumption	MWh	20,386	13,475
Externally-purchased electricity	MWh	67,792	64,819
Total indirect energy consumption	MWh	67,792	64,819
Total energy consumption	MWh	88,178	78,294
Energy consumption intensity	MWh/million revenue (HK$)	10.05	9.43

High-pressure Machine Energy-saving Renovation Project

During the Reporting Period, our cloth cover manufacturing plant in the PRC undertook an energy-saving renovation project for the air compressor. This involved renovating and re-arranging the original air compressor room to reduce the number of pipeline elbows. The original steel pipes of different nominal diameters (DN50, DN40, DN80) were uniformly adjusted to DN65 size to eliminate air pressure fluctuations. After the pipeline transformation and the replacement of the frequency conversion air compressor, 47.9% of the energy can be saved. In addition, we installed a more efficient refrigeration dryer system, adding a space-time switch to control its automatic power-on and power-off times and avoid energy consumption when production is not taking place. Currently, the energy consumption has dropped to 0.11 kWh/m^3. Compared with the original unmodified pipeline and the old air compressor, 53% of the energy can be saved. Other factories in the PRC of the Group are also undergoing similar renovations gradually. According to data collected after the renovation of the air compressor project at the cloth cover manufacturing plant, it is estimated that renovating all the Group's high-pressure compressors could reduce carbon emissions by approximately 1,000,000 kg per year.

WATER RESOURCES MANAGEMENT

The Group understands the importance of water resources. We reduces water consumption by strengthening water resources management and saving water. The main source of water used for the Group's production and operation activities is tap water, and we have implemented a series of water-saving renovation projects. For example, infrared human sensors are used in the dormitory toilets, and shower faucets have been installed in bathrooms to control the use of tap water. A water inspection system has been established in the production areas.

During the Reporting Period, water consumption decreased compared with 2019. This was mainly due to the slowdown in production and the implementation of home office arrangements in the U.S. during the COVID-19 pandemic, which resulted in a decline in water consumption during production and in offices.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's total water consumption was as follows:

Indicator	Unit	2019	2020
Water consumption	m^3	876,019	742,829
Water consumption intensity	m^3/million revenue (HK$)	99.81	89.44

Smart Bathroom Project

During the Reporting Period, an intelligent card swiping management system was installed in the bathroom in the dormitory area of our plant, which informs employees about their water consumption. The introduction of the smart card swiping management system has significantly reduced the consumption of hot water, which in turn has reduced natural carbon emissions from boiler combustion. It is estimated that these annual carbon emissions have the potential to be reduced by approximately 220,000 kg.

The Group has not faced any problems in obtaining suitable water sources.

PACKAGING MATERIAL MANAGEMENT

The packaging materials of the Group are mainly plastics and paperboard. We strive to reduce packaging to reduce resource consumption. During the Reporting Period, we continued phasing in new types of corrugated paper packaging materials with fewer paper layers. At the same time, we increasingly recycled and reused production turnover plastic bags to increase the utilisation efficiency rate of our plastic packaging materials.

Since the Group has not previously disclosed data relating to its use of packaging materials in its manufacturing plants in the PRC, the Group's product packaging consumption could not be shown accurately. Therefore, the Group established a data collection method for this information during the Reporting Period.

The packaging materials consumption by the Group's production plants in the PRC, the U.S. and Mexico was as follows:

Type of Packaging Materials	Unit	2019[5]	2020
Plastics	Tonnes	8	1,727
Paperboard	Tonnes	1,500	17,454
Total product packaging materials consumption	Tonnes	1,508	19,181
Product packaging materials consumption intensity	Tonnes/million revenue (HK$)	0.17	2.31

Remark:

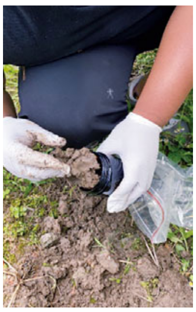
5. *Only packaging materials used in production in the U.S. and Mexico are included.*

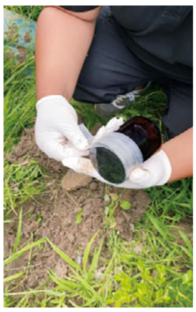
THE ENVIRONMENT AND NATURAL RESOURCES

The Group attaches importance to the impact on the environment and natural resources brought by its businesses, and pursues the best practices for protecting the environment. In addition to complying with environmental laws and international standards and appropriately protecting the natural environment, to achieve the goal of environmental sustainability, the Group also incorporates the concept of environmental and natural resource protection into its internal management and daily operating activities.

SOIL AND GROUNDWATER ENVIRONMENTAL PROTECTION

The Group follows the standards set out in the "Environmental Protection Law of the People's Republic of China", the "Soil Pollution Prevention Action Plan" and the "Soil Environmental Management Measures for Industrial and Mining Land (Trial Implementation)". During the Reporting Period, we spontaneously carried out soil and groundwater monitoring work in order to strengthen our supervision and management on soil and groundwater environmental protection as well as prevent and control the soil and groundwater pollution.





NOISE MANAGEMENT

During the operations, machines will inevitably generate noise. We strictly abide by the statutory requirements relating to noise, and regularly monitor noise levels to minimise the noise generated by our production activities and thus reduce the impact on neighbouring communities and on the health of the workers of the Group. During the Reporting Period, we carried out noise inspection work.

CLIMATE RESILIENCE

The United Nations Intergovernmental Panel on Climate Change ("IPCC") has repeatedly issued warnings, calling on all sectors to take action to mitigate global warming. At the "Climate Action Summit" organised by the United Nations in 2019, governments and corporates promised to take more aggressive climate plans to achieve the zero-emission in 2050 and further accelerate the transformation to a low-carbon economy. In response to the increasing climate change, the Group realises the need to take appropriate measures to build climate resilience.

TRANSFORMATION RISK AND PHYSICAL RISK

Extreme weather is currently getting more severe, and dealing with the climate change has become a global consensus. As more people are concerned about climate change issues, the corporate strategies and measures on tracking climate change will directly affect the Group's reputation. In addition, policy actions and emerging technologies correlated to climate change will continue to develop, for example, switching to low-carbon energy sources and supporting a low-carbon economic system, may bring risks to the Group's technological transformation and increase its costs. If the government makes changes in accordance with the Paris Agreement to reduce the extraction of fossil fuels, this may lead to an increase in fuel prices, thereby increasing the Group's production costs. Moreover, climate change implies that we may face more frequent or severe extreme weather such as floodings, droughts and storms. Extreme weather events may cause disruptions to operations and supply chains and damage to infrastructure and facilities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to slow down and adapt to climate change, we have implemented a series of measures. Regarding the mitigation and the adaptation of climate change, the Group is aware of the impact of the use of fossil fuels on exacerbating climate change. We strive to explore the opportunities of using alternative or renewable energy in our operations. We adopted all possible effective emission reduction measures and technologies, such as using low-carbon and energy-saving products and materials, as well as optimising our factory equipment. The Group is also committed to improving the efficiency of resource use in its daily operations, and reducing operating costs through effective energy, water, packaging materials and waste management. For more detail, please refer to the "Use of Resources" section. Meanwhile, we are in the process of formulating long-term emission reduction targets.

In order to adapt to climate change, the Group regularly monitors and reviews the latest developments in technologies, regulations and policies related to climate change, and increase employees' awareness of heat stress-related diseases. In addition, to identify and manage major climate-related risks, we will continue to communicate with different stakeholders and consult different opinions, as well as benchmarks the climate-related initiatives of other companies.

SUPPLY CHAIN MANAGEMENT

The Group attaches great importance to the management of potential environmental and social risks in the supply chain. The Group is always ready to help suppliers improve their management standards, and enhance the sustainable operations and anti-risk capabilities through sharing its experience, in order to promote the sound development of the supply chain and ensure responsible supply.

The Group has established a strict and standardised procurement system and supplier selection procedure, with environmental and social risk control requirements in place for its suppliers. We have formulated "Potential Supplier Investigation Form" and "Supplier Management Control Procedures". Every suppliers who cooperate with us for the first time need to undergo review and assessment. In order to ensure stable product quality and control supplier risks, we assess our suppliers regularly and score them according to monthly and annual assessment grades. The grades are divided into S/A/B/C/D or excellent/good/medium/poor, and a "High-Risk Supplier Audit Plan" has been formulated to implement major audits and remove suppliers with poor ratings.

FAIR AND OPEN PROCUREMENT

In the PRC, the Group's procurement process strictly abides by the "Law of the People's Republic of China on Tendering and Bidding" and other relevant regulations. It is carried out under open, fair and just conditions. We do not discriminate against any suppliers, and do not tolerate corruption or bribery. Employees and other individuals with an interest in a supplier are not allowed to participate in related procurement activities. The Group highlights the integrity of suppliers and business partners. We only select suppliers and business partners with good business track records, and those with no serious violations of regulations or business ethics.

SUSTAINABLE PROCUREMENT

The Group incorporates the concepts of sustainable development into its procurement process, and strives to promote the concept of sustainable development throughout the supply chain, aiming to cooperate with contractors and suppliers to minimise the impact on society and the environment. We have formulated a "Supplier Social Responsibility Checklist" to review suppliers in terms of their working environments, occupational health and safety standards, conformity with child labour and forced labour laws, and environmental management. If any non-conformance is found, we require suppliers to suggest improvement measures and complete the rectification within a prescribed time limit. At the same time, we have included environmental provisions in the "Framework Agreement" signed with suppliers which require that the products provided by suppliers must meet the laws, regulations and implementation rules of the PRC, the European Union and the U.S. on environmental protection and health, as well as local laws and regulations.

We maintain close relationships with our suppliers. During the Reporting Period, we held several technical seminars with our suppliers to exchange professional advice and suggestions regarding plastics, metals, fabrics, packaging and other topics, and to discuss plans to incorporate new environmentally friendly materials in production.

During the Reporting Period, the Group had a total of 722 suppliers.

Region	Number
The PRC	703
Overseas	19

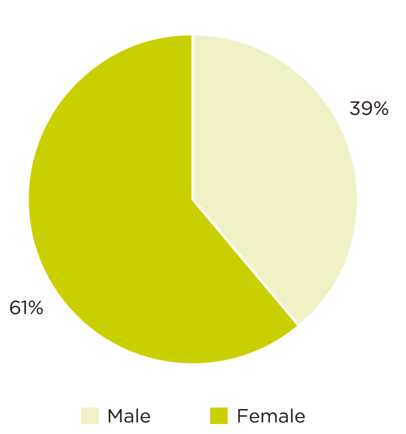
EMPLOYMENT PRACTICES

The Group cherishes talents from all aspects and believes that employees are the key to sustainable business growth. The success and sustainable growth of the Group depend on its ability to attract, train and retain high quality employees. Over the past 30 years, we have adhered to the principle of "people-oriented", striving to create an equal, diverse, inclusive, and free working environment for all employees, and encouraging them to innovate, improve and develop together. During the Reporting Period, we further optimised the recruitment process, improved pre-employment background checks, and launched a facial-recognition system to help prevent child labour, forced labour and other illegal employment.

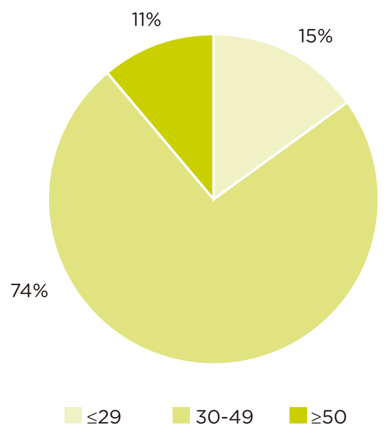
The Group strictly abides by the labour laws and regulations in all the places it operates implements fair and transparent employee recruitment and appointment procedures, and prohibits recruitment of child labour. During the Reporting Period, the Group was not aware of any material non-compliance with related laws and regulations related to human resources that would have a significant impact on the Group. Please refer to Appendix 1 for the relevant laws and regulations.

As of 31 December 2020, our global team was made up of a total of 9,375 people.

Number of employees by gender

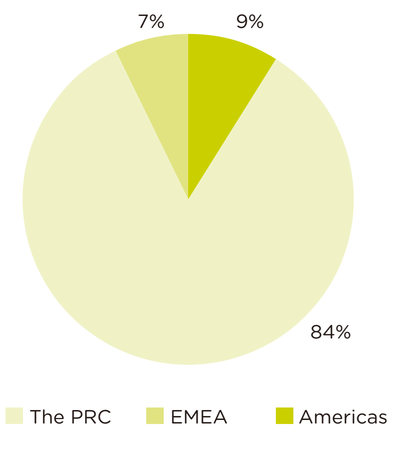


Number of employees by age

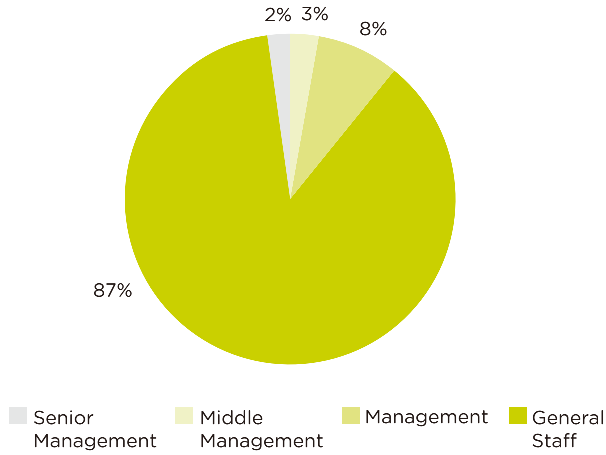


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Number of employees by regions



Number of employees by employee category



TURNOVER RATE

The Group strives to care about the personal development, health and safety of each employee, and is committed to creating a harmonious, warm and united working atmosphere for employees. As a result, our turnover rate continues to decline. Compared with the turnover rate (active) in 2019, the number of employee leaving employment and turnover rate (active) of the Group in 2020 have both significantly declined. The turnover number of blue-collar employees decreased by 1,107 which approximates to 11.60% respectively, while the white-collar turnover number decreased by 63, approximately same percentage as last year. At the same time, the turnover rate of new employees resigning within seven days has decreased.

	Turnover Rate
By gender	
Male	28.37%
Female	31.08%
By age group	
≤29	52.41%
30-49	26.00%
≥50	17.71%
By region	
The PRC	36.55%
EMEA	17.02%
Americas	32.82%

REMUNERATION AND BENEFITS

The Group believes that having a good employment system and a competitive salary package are keys to attracting and retaining local and international talents. The Group "Remuneration and Benefits System" which is has formulated a based on principles of fairness, competition, incentives, reasonableness and legality. The human resources department determines the salary of employees in accordance with their positions, capabilities, performances, values and market salary trend to ensure a fair and reasonable salary distribution.

The Group strictly abides by the relevant laws of different countries to protect the legal benefits and rights of employees. The Group respects the rights of employees to rest and have vacations and regulates the working hours of employees. We implement a paid leave system for employees. All employees receive their normal pay marriage leave, funeral leave, maternity leave, sick leave, work injury leave, personal leave and other incentives. We also pay overtime for labour exceeding the statutory working hours. At the same time, 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 the PRC, in addition to providing employees with statutory benefits such as social insurance benefits and one housing fund (which includes pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and holiday leave), we also provide medical insurance benefits such as an annual physical examination, life insurance and medical insurance. During special days, such as the Spring Festival and employees' birthdays, activities are organised to celebrate the occasion.

RECRUITMENT AND DISMISSAL

The Group actively implements the strategy of strengthening the corporate with talents, and continuously enhancing its talent recruitment system. Considering the diversified business of the Group and the widespread demand for personnel, we have implemented a series of talent employment system such as the "Recruitment Regulation" and "Internal Recommendation System". We standardise the procedure and principles during the recruitment process. We adhere to the employment principles of good morals, knowledge, ability, experience and physical ability for the post, and the principles of openness, fairness, competition and competitive selection, so as to continuously attract and recruit outstanding talents.

During the Reporting Period, we launched an 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.

Under no circumstances does the Group dismiss employees without valid reasons. We have formulated a "Measures for the Management of Outgoing Employees" to ensure that the dismissal process is only carried out on a reasonable basis, and to ensure that the issue has been fully communicated before formal dismissal takes place.

PROMOTION

To protect the interests of both employees and the Group, the Group classified employees into different category and manage them accordingly, and have clarified the basis and procedures for managing the promotion, transfer and demotion of personnel and standardised the resignation procedure. We have implemented a fair and open evaluation system which provides employees with opportunities for promotion and development in accordance with their work performance and internal evaluation results in order to explore their potential. We adhere to three principles for the internal assessment of talents, namely the principle of meritocracy, the principle of merit, ability, political integrity and actual performance, and the principle of openness, fairness, competition, and competitive selection.

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Annual Talent Development Plan

January	February-March	March-May	May-June	July	August-October	November-December
• EPDD annual appraisal • Setting KPI for the new year	• Calibration of EPDD results by supervisors • Use of EPDD results	• Talent inventory • Implementation of Individual Development Plan (IDP) and Performance Improvement Plan (PIP)	• Successor plan • Key talent retention plan	• Annual KPI review	• Talent development plan follow-up	• EPDD Training • KPI results evaluation • EPDD online system testing

To understand the needs and strengths of employees and place them in suitable positions so that they can play their strengths in suitable positions, the Group evaluates employee performance and competency to ensure the human resources are allocated optimally. Our Employee Performance and Development Dialogue (EPDD) evaluates employees' job value output and their compatibility with their positions (including potential dimensions). To ensure the fairness and impartiality of the employee evaluation results and the accuracy and efficiency of the employee evaluation process, we conducted comprehensive performance interview training for all managers during the Reporting Period. The results from the EPDD are mainly used for motivating and training the employees. For talents of different evaluation grades, the Group adopts different incentive measures. The results of the annual KPI evaluation are used as a basis for bonus incentives, and the results of the performance evaluation are used as a basis for promotions or job adjustments. If an employee's overall performance results (KPI, competence, values) are unsatisfactory, the employee may be considered for transfer or dismissal in order to stimulate the continuous vitality and creativity of the Group.

Talent Inventory

The Group conducts a talent inventory every year to source internal talent, build up its talent reserve, and help it in formulating a human resources risk control matrix to reduce human resources related risks. During the Reporting Period, 23 review meetings relating to the organisational talent inventory were held, and 113 high-potential employees were identified. We conduct career development interviews for high-potential personnel and formulate personal plans for them (such as transfer, promotion, expansion of management scope, transfer across factories or divisions). We also develop training programmes such as piloting programmes for team managers.

EQUAL OPPORTUNITY AND ANTI-DISCRIMINATION

The Group strictly abides by the relevant laws and regulations of the national and local governments, and has formulated an "Employment Handbook" and a "Recruitment Regulation" to ensure that it adopts a fair, just and open recruitment process to ensure no employee may be discriminated against on the basis of race, social status, religious beliefs, nationality, disability, age, marital status, gender, pregnancy, sexual orientation, union membership, political connections or other factors. All employees enjoy fair treatment in salary, training, promotion, termination of employment contracts, retirement or other employment-related areas. We strive to recruit professionals with different backgrounds. Any employee who is intimidated, humiliated, bullied or harassed (including being sexually harassed) can report to the employee representative, directly to the management representative, or directly to the general manager. The Group will take the complaint very seriously.

LABOUR STANDARDS

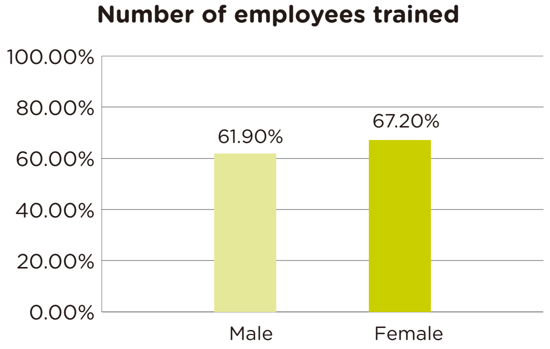
The Group strictly prohibits any child labour and forced labour in its operations in the PRC, Europe and the Americas. The Group has established a complete recruitment process to check the background of candidates, and a formal reporting procedure to deal with exceptional cases. Personal data is collected during the employment process to assist in selecting suitable candidates and to verify candidates' personal data. The human resources department is responsible for ensuring that identification documents have been carefully checked. If any violation occurs, it will be dealt with according to the situation.

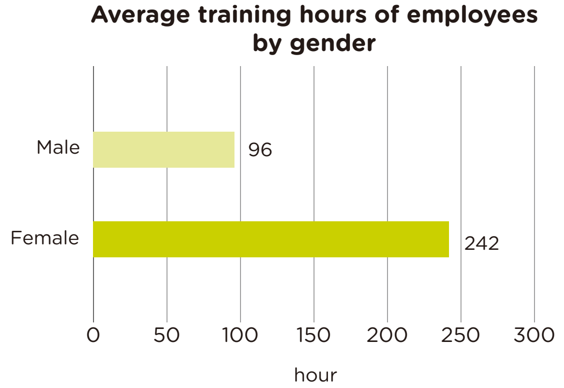
In addition, all overtime work is done according to the principle of voluntariness to avoid violating labour standards and effectively protect the rights and interests of employees. Overtime wages or paid leave must be provided for overtime work. To prevent any form of forced labour, a job description outlining the basic duties of the employee is attached to the labour contract. The Group also prohibits punitive measures management methods and behaviours such as abuse, corporal punishment, violence, mental oppression, and sexual harassment (including inappropriate language, posture and physical contact) on employees for any reason. Moreover, the Group avoids appointing third-party factories or any suppliers that have been found to employ child labour or forced labour in their operations.

During the Reporting Period, the Group was not aware of any material non-compliance with related laws and regulations related to the prevention of child labour or forced labour that would have a significant impact on the Group. Please refer to Appendix 1 for the relevant laws and regulations.

EMPLOYEE DEVELOPMENT AND TRAINING

The Group hopes the employees can grow with the Group and to build a knowledgeable, skilful and innovative "Goodbaby invincible army". In order to enrich employees' knowledge, improve their skills, and allow employees to develop from a single skill to multiple skill as to adapt to the ever changing customer and organisational development needs, the Group has implemented "Measures for External Training", "Rules on the Management of Online Learning Platforms" and "Nurturing System for College Students" in providing a series of training courses to be delivered for employees. During the Reporting Period, we provided training to more than 65% of our employees, with an average training time of approximately 122 hours per person.



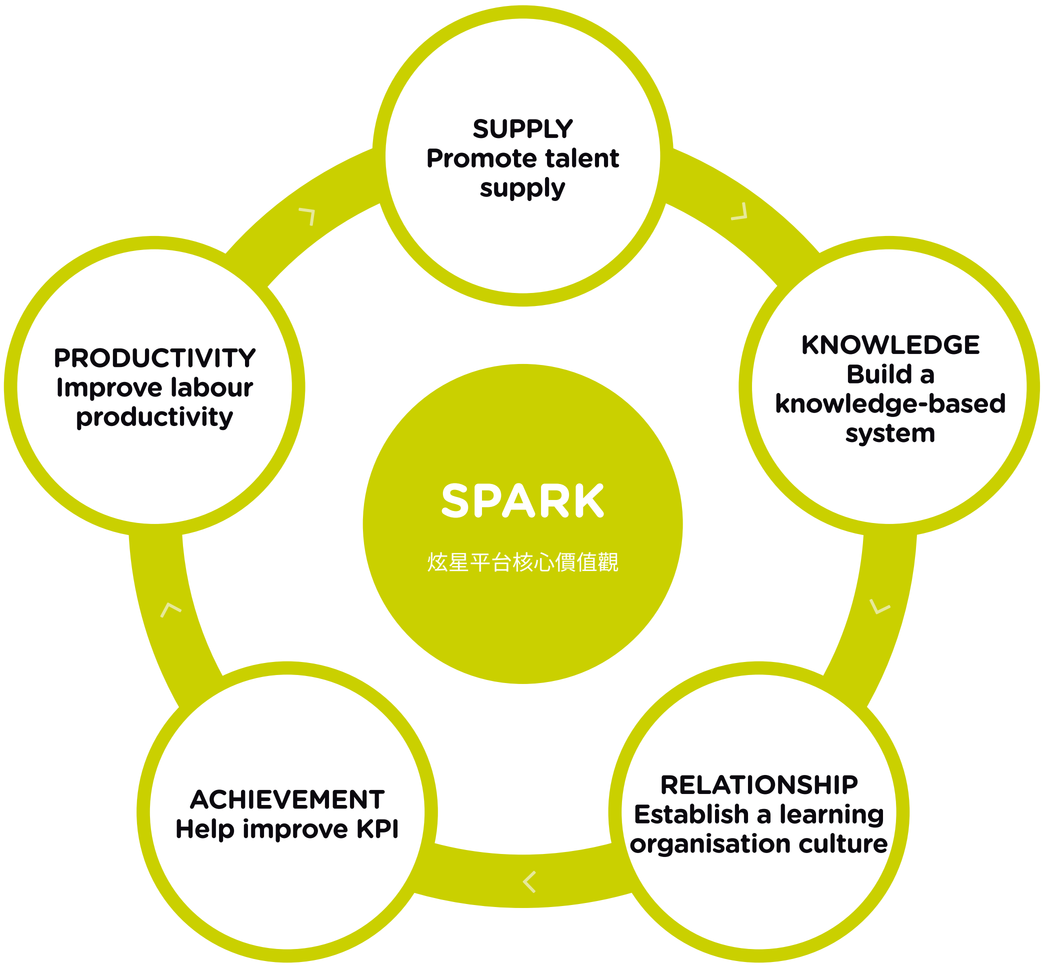


The PRC government has formulated a series of talent training, introduction and incentive policies. The Group has actively responded to these policies. During the Reporting Period, 27 people declared and received talent allowances provided by the government, for a total of approximately RMB1.098 million.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ONLINE TRAINING

The Group considered the broad distribution and diverse training needs of its employees, an e-Learning platform called Spark has been launched in November 2019. The Group continued to develop digital learning platform and designed to provide employees with an effective and diversified learning platform that combines online and offline resources. During the Reporting Period, the Group upgraded the course content of Spark. As of December 31 2020, there were 3,004 knowledge points on the online learning platform, an increase of 1,446 compared to 31 December 2019. We arranged the courses in accordance with the management sequence and professional sequence, so that different departments can select the required courses more specifically for learning. After a series of efforts, the Group has completed 380 online learning programmes for white-collar employees. A total of 5,235 people logged in to the online learning platform throughout the year.



In order to strengthen operation management and reshape the system management thinking of senior management, we launched an online training course called "Business Management Master Class" for senior managers during May and June 2020. The course content consisted of four major aspects including strategy formulation, organisational activation, market positioning and capital operation. Through in-depth study and thinking, the senior managers can enhance their cognition of system management. More than 80 managers participated in this course, with a total of 37,443 learning hours.

ON-SITE TRAINING

During the Reporting Period, the Group launched 473 high-quality on-site courses. These included a series of general and professional courses in which 29,684 people participated, with a total of 78,869.25 learning hours.

ISO9001 Quality Management System Standard Training: To ensure the effective implementation and operation of its quality system, on 12 and 13 June 2020, we invited external lecturers to conduct ISO9001 quality management system standard training for staff who engage in quality management system in the PRC region. A total of 15 people participated in this training. All of them passed the examination and obtained the internal auditor certificate.

FMEA Seven-step Training: On 1 August 2020, we invited external lecturers to conduct FMEA seven-step training for employees in the PRC region. A total of 66 employees from 11 departments participated in the training. The course included theoretical study, case sharing, group exercises and practical exercises. All participants were able to deliver an FMEA case analysis by the end of the training.

TARGETED TRAINING PROGRAMME

To enhance the business capabilities of employees and cultivate potential employees, the Group launched two targeted training programmes for specific groups during the Reporting Period.

English Training Programme: An English training programme was carried out from June to December 2020 to improve the business communication skills of staff of the information technology department in the PRC region, allowing them to be able to communicate with foreign customers on complex work content during the project management process. A personalised study plan was devised for each of the 11 students based on a proficiency test (written test, oral test, and interview) and an on-site investigation of typical business English scenarios. Students could receive offline and online one-on-one teaching from local and overseas experienced teachers. During the 6-month programme, there were two 2-hour courses per week. Besides, periodic tests were held to verify their learning outcomes. The information technology department also organised sharing activities to improve students' English ability through practical exercises.

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Leadership Development Programme: During the Reporting Period, the Group launched a "Leadership Project – Leadership Development Programme". The programme used blended learning that combined classroom learning, E-learning, practical projects, reading sharing, case workshops, etc. The programme aimed at deepening participants' self-awareness and managerial role recognition, enhancing team leadership and cross-departmental collaboration, and strengthening project management and business planning capabilities. A total of 28 students participated in this project, which involved five on-site courses of a total of seven days, and four online courses. The programme lasted 10 months, and involved a total expenditure of approximately RMB200,000.

VOCATIONAL SKILLS CERTIFICATION PROGRAMME

During the Reporting Period, the Group carried out the programme for two categories of workers (sewing workers and assemblers) with four tiers of certification. In total, 34 participants were certified as primary sewing workers. In addition, 83 people were certified as senior assemblers, 98 as intermediate assemblers, and 65 as primary assemblers.

EMPLOYEE CARE

The Group cares for all its employees and is committed to creating a harmonious, warm and united work place. In the PRC, the human resources department established special project teams responsible for employee care, 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.

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. We actively took steps to open new employee communication channels, and organised a series of employee communication activities.

Survey on Employee Training Needs

To understand the demand of employee training, we carry out a survey at the end of each year to collect employees' views and suggestions on training objectives, training plans and training implementation. These are used to refine the next year's training plan and improve the accuracy, timeliness and effectiveness of the training.

Rationalisation Proposal Channel

Reasonable suggestions can help us realise our internal potential, improve employees' participation in the democratic management of the company, and enhance work vitality and innovative work thinking during the process.

Employee satisfaction survey

Employee satisfaction surveys allow us to check and improve relevant policies in a timely manner, locate the causes of problems, and evaluate the impact of organisational changes and new corporate policies on employees and promote communication between the Group and employees.

Employee diversity, equality & inclusion survey

To help ensure a diverse, equal and inclusive working environment, we sent a survey on diversity, fairness and inclusiveness to employees in the U.S. region in June to gain a better understanding of their perspectives on these issues.

All-in-one Card Project

After considering employee feedback, we implemented an all-in-one card project in the PRC region during the Reporting Period. Before its implementation, employees needed to hold both a integrated circuit card ("IC card") and an identification card ("ID card") for access to the staff accommodation and factory. Besides, since the dining system, dormitory access control system and bathroom system were not linked with the main personnel database, employee information needed to be manually maintained in each system, which consumed time and had a risk of inconsistent data entry. The all-in-one card links the main personnel database to the employee dining system, the dormitory access control system, and the bathroom system, bringing greater convenience for employees and improving employee satisfaction.

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EMPLOYEE SUPPORT

As part of the Group's employee care, it provides economic and material subsidies to employees in need to relieve their worries and enable them to devote themselves better to their work. During the Reporting Period, we provided assistance in the form of subsidies of approximately RMB57,500 to employees in need. During the winter, Goodbaby employees knitted 150 scarfs and presented these to the sanitation workers who had to work in the severe cold.

DIVERSIFIED EMPLOYEE ACTIVITIES

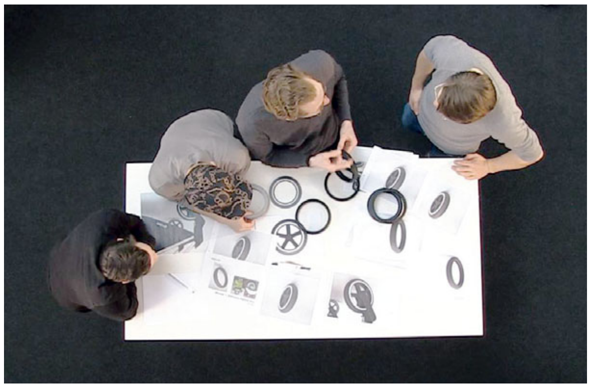
A number of employee activities were offered that helped our employees expand their knowledge and nurture good habits, thus boosting their potential and increasing cohesion. The activities can be classified into four categories: Knowledge Enhancement, Team Building, Enrichment of Cultural Life, and Employees' Child Care.

Knowledge Enhancement

During the Reporting Period, we encouraged employees to participate in various activities to enhance their knowledge and skills. The activities included a welder and molder skills competition, a safety knowledge competition, and an environmental protection knowledge competition. This enables our employees to establish a sense of crisis and responsibility. It also fully mobilised their working intension and creativity. In the future, we will be more actively encouraging our employees to acquire more business knowledge and to cultivate their skills and knowledge continuously.

Team Building

During the Reporting Period, the Group carried out a series of team building activities to enhance team morale and increase employees' sense of involvement and unity. These included providing a friend-making platform for unmarried young people, distributing more than 500 rice dumplings to employees at the Dragon Boat Festival, and organising employees anniversary.



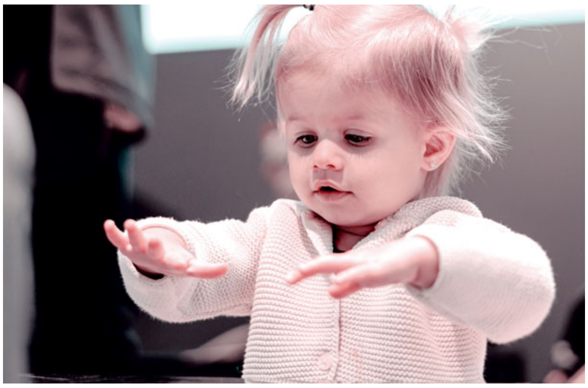
Enrichment of Cultural Life

The Group has established a photography association, a sports association, and a literary association, and encourages employees to join different associations to explore their interests in various fields. During the Reporting Period, more than 500 employees joined associations, and more than 50 activities were held. Some employees participated in competitions held in different provinces, with good results.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employees' Child Care

Besides caring for our employees, we also seek to extend our support to their families. During the Reporting Period, the Group's human resources department in the PRC engaged with the local government, the women's federation and the labour unions to organise a number of employee care activities, such as one-day camps and workshops for parents and children.



OCCUPATIONAL HEALTH AND SAFETY

We consider corporate safety as the core of our production and prioritise the occupational health and safety of our employees. Throughout our production and operation processes, we strive to eliminate potential health and safety hazards at workplace and improve safety management in order to create a healthy, safe, pleasant and harmonious work environment for 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.

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 continuously reviewed documents on safety management, including the "Work Safety Responsibility System", the "Work Safety Target Management System", the "Management Procedures for the Identification, Evaluation, and Control of Safety Risks", the "Work Safety Accident and Hidden Danger Detection and Management System" and the "Safety Alarm Management System" to improve our occupational health and safety management systems. We had further institutionalised our occupational health and safety management and clarified the responsibilities associated with different job roles.

During the Reporting Period, the Group was not aware of any serious violations of laws and regulations related to health and safety that have a significant impact on the Group. Also, no work-related deaths occurred. Please refer to Appendix 1 for the relevant laws and regulations.

During the Reporting Period, the Group recorded 58 lost days due to injury and 0 work-related fatality.

SAFETY PRODUCTION

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.

The Group will arrange employees to view safety videos on production safety work, and organises safety training and Environmental, Health, and Safety (EHS) Competency Examinations for them. This helps improve employees' safety awareness and test their safety knowledge so that accident prevention and control measures can be carried out efficiently. During the Reporting Period, a total of 2,982 employees viewed safety videos, and 1,247 employees took the EHS Competency Examination. There was a 100% passing rate, and 86% achieved 80 marks or above.

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 made.

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To ensure that employees strictly abide by the safety production rules and to check whether the current safety production system is appropriate, the department of environmental safety and health asks the engineers of each factory to conduct a safety cross-audit at the production plants. In terms of documentation, we focused on reviewing whether the production responsibility and safety systems of various departments and employees are being strictly implemented. We have also ensured our protection facilities and safety measures are meeting requirements, and have carried out periodic safety checks. We seriously investigate all incidents, and report them in a timely manner. Our on-site safety management involves reviewing the operating environment and all safety equipment and facilities, investigating hidden dangers, and regularly maintaining all protective equipment.

On 20 March 2020, the department of environmental safety and health trained safety engineers from various factories in carrying out basic safety production standardisation. The engineers learnt about establishing and maintaining safety production standardisation management, as well as about evaluation principles and general requirements. Our core technical requirements consist of eight elements which are target responsibilities, institutionalised management, education and training, on-site management, safety risk control and hidden danger investigation and management, emergency management, accident management, and continuous improvement.

Safety Production Knowledge Competition

On 15 August 2020, six teams took part in a Safety Production Knowledge Competition. Participants learnt about the importance of safety in the production process and mastered new knowledge about safety in production.

FIRE SAFETY

The Group trains employees to use fire-fighting equipment and regularly evaluates its fire-fighting evacuation plan. During the Reporting Period, we arranged 19 fire-fighting training and fire-fighting evacuation drills in the PRC.

"Four Ability" Fire Safety Training

On 19 May 2020, the department of environmental safety and health invited the local fire brigade to conduct fire safety training. The training aimed at enhancing four abilities of employees including the ability to eliminate hidden fire hazards, the ability to put out fires in the initial stage, the ability to organise and guide evacuation, and the ability to publicise and teach fire safety knowledge. All the employees who worked on factory safety, factory production and warehouse management had engaged the training.

Canteen Fire Safety Training

On 19 June 2020, the department of environmental safety and health organised a special fire safety training for employees working in Kunshan canteen in the PRC, focusing on the common causes of fire, methods of extinguishing fire in the initial stage, and the means of escape if a fire is out of control.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

RESPONSE TO THE COVID-19 PANDEMIC

In response to the spread of COVID-19, the Group adopted various health and safety measures designed to protect employees' health. Apart from increasing the frequency of sanitisation of office and factory areas, we required our employees to wear surgical masks and measure their body temperature before entering the offices or factories. The Group provided supplies such as thermometers and hand sanitisers to employees, and gave guidance on the correct handling and disposal of used masks.

The Group launched an online training programme to promote knowledge on prevention of COVID-19 and enhance the overall prevention abilities of employees in the PRC. A total of 34 departments and 4,208 employees completed the online training programme, which included 34 training courses. A total of 24.53 training hours were provided, and 200 questions were included in the question banks.

COMMUNITY ENGAGEMENT

The Group is committed to fulfilling its corporate social responsibility. The Group works closely with the government, the media, hospitals, charity organisations and other institutions to participate in public welfare activities. During the Reporting Period, the Group participated in charitable activities for 2,796 hours cumulatively and donated HK$459,404 to charitable and volunteer organisations.

During the Reporting Period, we engaged in a number of charitable activities relating to the social issues associated with COVID-19, children's health and development, animal rights, and social justice for women and children. The following are some of the highlights of our work.

FIGHTING AGAINST COVID-19

Since the outbreak of COVID-19, the Group has supported local governments in their efforts to prevent and control the pandemic. We also donated money and materials through various channels in the spirit of helping each other and working together.

Providing Aid to Wuhan

During the initial outbreak of COVID-19, there was a shortage of supplies such as masks and disinfectants in the affected area of Wuhan. In February 2020, the Group organised its factories and departments to urgently transfer more than ten thousand packets of sterile wipes to Wuhan Zhongnan Hospital.

Supporting Frontline Medical Staff

The Group supported the frontline medical staff in the U.S. with practical action. During the Reporting Period, the Group's Piqua factory in the U.S. produced personal protective equipment (PPE) masks and sent them to hospitals in State of Ohio.

CHILD HEALTH & SAFETY AND DEVELOPMENT

We are committed to providing assistance to parenting families globally. In this respect, we continued the activities of the previous year, such as cooperating with the Seeds of Hope organisation and organising activities on Manufacturing Day. We also cooperated with new charitable organisations, and held various events to increase our social exposure.

Donation of Children's Car Seats

The arrival of Hurricane Laura in the U.S. and COVID-19 pandemic remind us the importance of protecting the safety of infants and children. During September 2020, the Group organised a children's car seat donation event with the Juvenile Products Manufacturers Association ("JPMA") in the U.S., in which we donated 692 child car seats. We aimed to provide assistance to families affected by Hurricane Laura, while at the same time raising awareness of child safety.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the COVID-19 pandemic, the Group's U.S. regions also cooperated with Thom Child & Family Services ("Thom") and donated 50 brand new children's car seats and 15 convertible car seats to families in need. Thom has been committed to meeting the needs of children and their families since 1921, and more than 14,000 children received help from the Thom programme last year.

"Golf Outing" Donation Programme

To replace the golf outings cancelled due to COVID-19 pandemic, we organised a "Golf Outing" donation programme to encourage the usual participants to donate. We raised a total of US$7,900 to different organisations that support local children, including Make a Wish, Dayton Children's Hospital and Hanna's Treasure Foundation.

Sports Talent Plan

The Group's European region cooperated with Bayreuth, a professional basketball team, to establish partnerships and strengthen local youth programmes, with the aim of helping schools to provide quality sports education, expanding the talent available for local teams, establishing training venues and opportunities, and connecting education, sports and business networks.

Take the Kids to The Sky

Above the Clouds, a non-profit organisation, mainly works for sick children and organises flying experiences to them. Our employees in Massachusetts voluntarily serve as greeters and ground crews, helping these children to have an unforgettable experience.

Feedback from Charities

We are delighted to receive thank-you letters from charities we have worked with and know the lives of the children and their families we helped have been improved.

Thank-you letter from Thom Child & Family Services

At the end of July 2020, we received a thank-you letter from Thom to express gratitude for our generous donation. They also shared the joy of a family that received two of our baby car seats. The recipient is a pregnant woman. She was very grateful for receiving the car seat donated by us, and we were very happy to be able to help this family tide over the difficult times.

Thank-you letter from Make A Wish

We received a thank-you letter from Make A Wish in January 2021 for our continued support. The letter contains a message from Alanna, a girl we helped in 2010, thanking us for helping her through the most difficult period in her life. Another child we helped was Eli. Our donation enabled Make a Wish to fulfill his wish. He responded with a huge smile. We are so happy to be able to help these children.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ANIMAL RIGHTS

Animals are sentient beings and therefore also enjoy the right to be protected. The Group hopes to contribute to improving animal welfare and eliminating all forms of cruel behaviour toward animals.

Goodbaby Animal Rescue Programme

In March 2020, the State Administration for Market Regulation, the Ministry of Agriculture and Rural Affairs, and the State Forestry and Grass Administration decided to ban wildlife trading activities until the end of the COVID-19 pandemic in the PRC. The Group actively responds to national policies on animal protection.

The Group launched a series of animal-themed products co-branded with the famous Dutch illustrator Rick Berkelmans to promote animal protection. We also invited celebrities from all walks of life, such as our senior vice president Sharon Song, Dutch illustrator Rick Berkelmans, and famous Taobao anchor Wei Ya, to join the "Goodbaby Animal Rescue Programme."

PUBLIC HEALTH

The Group participated in various public health-related activities, such as Wear Red Day organised by Heart Health Month in the U.S.. The Group also donated supplies to organisations such as the Bradford Community Club and Pink Ribbon Girls that assist patients in fighting disease.

Blood Donation

The annual blood donation of the Group's employees in the PRC region accounts for more than 50% of the total blood donations of the province. During the Reporting Period, the office of the Leading Group for Blood Donation Work of Kunshan City issued a banner of appreciation and praised Goodbaby's employees for their enthusiasm for public welfare undertakings.

SOCIAL JUSTICE

The Group is committed to building a harmonious society and helping socially disadvantaged groups. For example, the Group's U.S. region donated turkey and Christmas gifts at Christmas to underprivileged groups.

Matching Donation Plan

In response to the tragic race-related events in the U.S. in 2020, the Group's U.S. region launched a matching donation programme. When employees donate to one of the four non-profit organisations, Goodbaby will match their donation (up to $250). As of the end of 2020, employees had donated US$1,635, with the Group making corresponding donations. Employees can donate to organisations that meet our mission, including:

- National Urban League
- The Center for Law and Social Policy ("CLASP")
- National Black Child Development Institute
- Race Forward

Donations to Women's Shelter

The Group's European region donated to Frauenhaus, a local aid organisation that focuses on assisting women in need and offering shelter and recovery programs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Christmas Gift Donation Plan

Our interns in the European region organised a charity bazaar to donate Christmas gifts to children. Employees in the European region bought more than 150 Christmas gifts, and the interns gave out all the gifts before Christmas.

Waste Sorting Volunteer Activities

The Group's employees in the PRC participated in volunteer activities to promote waste sorting at the Lujia Winter Double 12 Shopping Festival. The goal of the event was to publicise and popularise knowledge about domestic waste sorting, and get citizens enthusiastic about taking part in it.

ENVIRONMENTAL PROTECTION

We attach great importance not only to educate our employees about the importance of protecting the environment, but also to disseminate environmental protection messages to the public.

APPENDIX I. LIST OF APPLICABLE POLICIES AND LAWS AND REGULATIONS

Operational Sites	Environmental	Social
The PRC		
	• Environmental Protection Law of the People's Republic of China • Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution • Water Pollution Prevention and Control Law of the People's Republic of China • Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste • Regulation on the Administration of the Recovery and Disposal of Waste Electrical and Electronic Products • 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 • Measures for Pollutant Discharge Permitting Administration-2020 • Guidelines for enterprises to develop emergency response plan for workplace accidents • Provisions on the Supervision and Administration of Occupational Health at Work Sites	• Labor Law of the People's Republic of China • Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases • Production Safety Law of the People's Republic of China • Company Law of the People's Republic of China • Patent Law of the People's Republic of China • Cyber security Law of the People's Republic of China • Advertising Law of the People's Republic of China • Law of the People's Republic of China on the Protection of Consumer Rights and Interests
Germany		
	• Treaties of the European Union • European Union Waste Framework Directive	• German Civil Code • Germany Minimum Wage Legislation • German Civil Law • German Labor Protection Act • European Union General Data Protection Regulation
The United States		
	• U.S. Clean Air Act • U.S. Federal Hazardous Substances Act • U.S. Clean Water Act • U.S. Energy Independence and Security Act of 2007 • U.S. Energy Policy Act of 2005	• U.S. Fair Labor Standards Act • U.S. Occupational Safety and Health Act • U.S. Patent Reform Act
Mexico		
	• National Water Law • General Law on the Prevention and Comprehensive Management of Waste	• Mexican Federal Labor Law (MFLL)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX II. HKEX ESG REPORTING GUIDE CONTENT INDEX

Subject Areas, Aspects, General Disclosures and KPIs Description		Section/Declaration
Environmental		
Aspect 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 Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection for the Long Term
KPI A1.1	The types of emissions and respective emissions data.	Emissions Management
KPI A1.2	GHG emissions in total (in tonnes) and intensity.	Emissions Management
KPI A1.3	Total hazardous waste produced (in tonnes) and intensity.	Emissions Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions Management
KPI A1.5	Description of reduction initiatives and results achieved.	Emissions Management
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions Management
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources
KPI A2.2	Water consumption in total and intensity.	Use of Resources
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Use of Resources
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources
KPI A2.5	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Resilience Social
Social		
Aspect 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, antidiscrimination, and other benefits and welfare.	Employment Practices, Employee Care
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment Practices
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment Practices
Aspect 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.	Occupational Health and Safety
KPI B2.1	Number and rate of work-related fatalities.	Occupational Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Occupational Health and Safety

Subject Areas, Aspects, General Disclosures and KPIs Description		Section/Declaration
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employee Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Employee Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Employee Development and Training
Aspect B4: Labour Standards		
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 preventing child and forced labour.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management
Aspect 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, labelling and privacy matters relating to products and services provided and methods of redress.	IP Rights Management Product Quality and Safety, Customer Satisfaction, Customer Privacy, Advertising and Labelling
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Customer Satisfaction
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	IP Rights Management
KPI B6.4	Description of quality assurance process and recall procedures.	Customer Satisfaction, Product Quality and Safety
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Customer Privacy
Aspect 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
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Integrity in our Operations
Aspect 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
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Engagement
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Engagement


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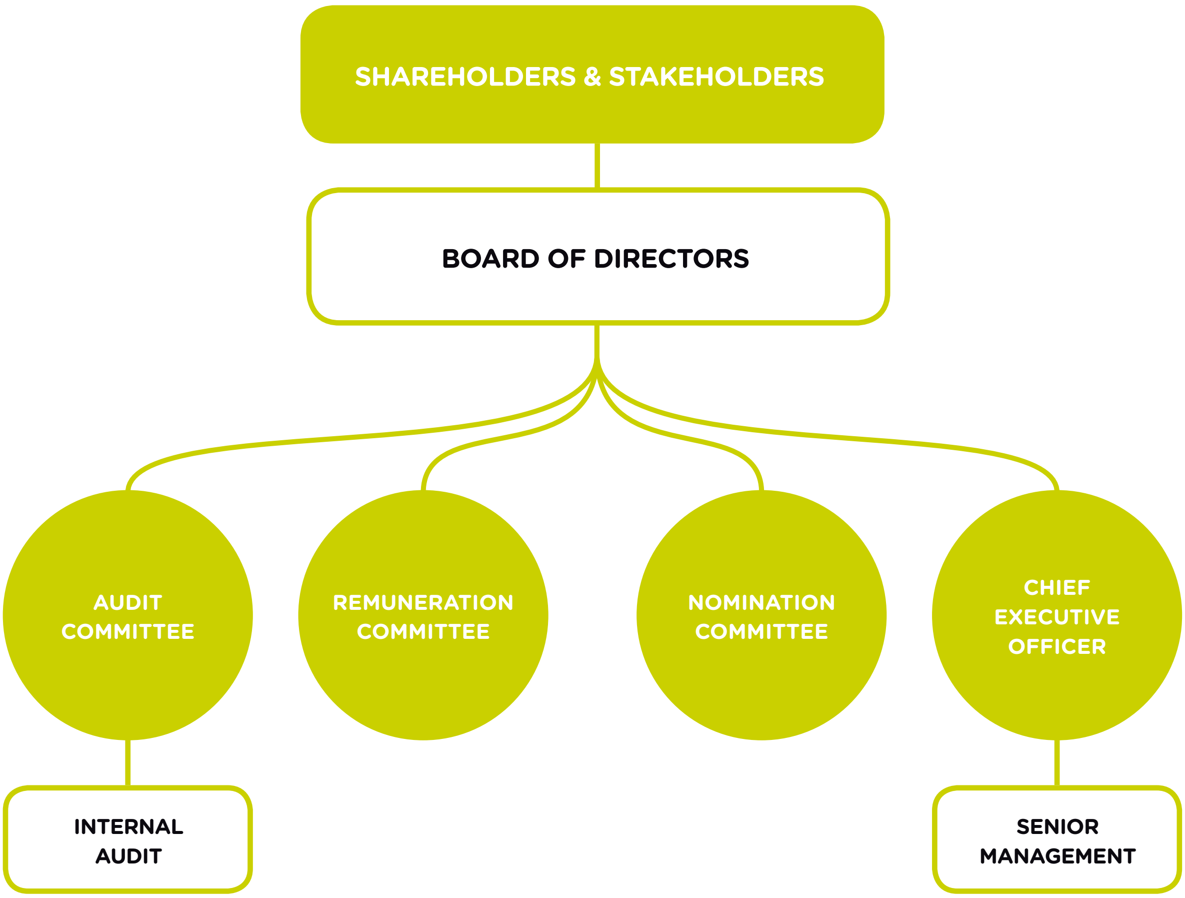
Corporate Governance Report

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 2020. 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 2020, the Company has complied with all the code provisions and certain recommended best practices in the CG Code, save for the deviation from code provision A.1.1, which deviation is explained in the relevant paragraphs of this part 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 27 to 35 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 2020, 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. The Company considers all independent non-executive Directors are independent.

CORPORATE GOVERNANCE REPORT

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 2020. 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.

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 responsibilities and to ensure that their contribution to the Board remains informed and 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 2020, 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 2020 is set out in the table below:

Name of Directors	Hours of Training in 2020
SONG Zhenghuan	11
Martin POS	11
XIA Xinyue	11
LIU Tongyou	10
Michael Nan QU	11
FU Jingqiu	10
HO Kwok Yin, Eric	11
Iain Ferguson BRUCE	17
SHI Xiaoguang	11
CHIANG Yun	11
JIN Peng	11

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 2020 are set out in note 9 to the financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2020 is set out below:

Remuneration bands (HK$)	Number of persons
HK$1,000,001 to HK$2,000,000	–
HK$2,000,001 to HK$3,000,000	–
over HK$3,000,001	3

CORPORATE GOVERNANCE REPORT

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.

The company secretary's biography is set out in the section headed "Directors and Senior Management" on pages 27 to 35 of this annual report. For the year ended 31 December 2020, 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, VP Group Legal & Compliance 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 101 to 115 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.

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 23 March 2020 and 25 August 2020 respectively, to review the annual financial results and report for the year ended 31 December 2019, and interim financial results and report for the six months ended 30 June 2020 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 2020, 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 23 March 2020 to review and make recommendation to the Board on the remuneration policy and the remuneration packages of executive Directors and senior management for 2020 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 23 March 2020 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.

CORPORATE GOVERNANCE REPORT

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 has 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 marking recommendations to the Board on the selection of, individuals nominated for directorships. 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.

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;
- 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 2020 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 2020 is set out in the table below:

	Attendance/Number of Meetings in 2020				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meetings
SONG Zhenghuan	3/3	N/A	N/A	N/A	1/1
Martin POS	3/3	N/A	N/A	N/A	0/1
XIA Xinyue	3/3	N/A	N/A	N/A	0/1
LIU Tongyou	3/3	N/A	N/A	N/A	1/1
Michael Nan QU	3/3	N/A	N/A	N/A	0/1
FU Jingqiu	3/3	N/A	N/A	N/A	1/1
HO Kwok Yin, Eric	3/3	N/A	N/A	N/A	0/1
Iain Ferguson BRUCE	3/3	2/2	1/1	1/1	1/1
SHI Xiaoguang	3/3	2/2	1/1	1/1	1/1
CHIANG Yun	3/3	2/2	1/1	1/1	1/1
JIN Peng	3/3	N/A	N/A	N/A	0/1

Code provision A.1.1 stipulates that, among others, the Board should meet at least four times a year at approximately quarterly intervals.

The Board held three physical Board meetings during the year of 2020. As members of the Board were located in different jurisdictions and time zones, and due to the restrictions imposed following the outbreak of COVID-19 pandemic, in order to efficiently and timely deal with the affairs of the Company, in lieu of physical meeting, consent of directors on various issues was sought through circulating written board resolutions as permitted under its articles of association. For the year ended 31 December 2020, in addition to the matters considered at physical Board meetings, all affairs of the Company had been properly dealt with by means of written board resolutions, which have been carefully considered and approved by all the Directors. In the forthcoming year, the Company intends to hold at least four Board meetings to deal with the Company's affairs, either in person or through electronic means of communication as permitted under its articles of association.

CORPORATE GOVERNANCE REPORT

Apart from regular Board meetings, the chairman also held a meeting solely with the independent non-executive Directors on 24 March 2020.

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 2020. 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 140 to 144.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness half-yearly. 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 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 2020 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.

(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 2020, 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 follows.

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 2020 and was satisfied with the effectiveness of the function.

CORPORATE GOVERNANCE REPORT

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. All 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.

The Company adopts an upward approach for identifying and escalating any potential inside information to the Board. The Board may resolve to designate one or more Executive Directors or Chief Financial Officer to monitor and implement information of the Company. Employees of the Company must be made aware of the disclosure policy and the importance of bringing any potential inside information promptly to their immediate supervisors or the Heads of business units or departments as appropriate. Heads of business units or departments should promptly verify and assess such details reported by the staff and notify and escalate the details of any potential proposal, transaction or business development which may give rise to disclosure obligations to the Chief Financial Officer. The Chief Financial Officer shall seek professional advice (where appropriate) and report to the Board or its delegate(s) and provide them with adequate details for review and assessment of the likely impact of such proposal, transaction or business development and ascertain whether it constitutes inside information or is subject to disclosure in order to avoid a false market. The Board or its delegate(s) should review all relevant details and factors and decide whether disclosure is required and approve the relevant announcement and any further actions where applicable.

Control procedures have been implemented to ensure that unauthorised 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 2020 amounted to 9,808,000 and 247,000 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 2020 is set out below:

Service Category	Fees Paid/ Payable
Audit Services	9,808,000
Non-audit Services	247,000
• Transfer pricing documentation	247,000

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 2021 annual general meeting ("AGM") of the Company will be held on 24 May 2021. 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 shareholder 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.

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 2502, 25/F., Tung Chiu Commercial Centre, 193 Lockhart Road, Wanchai, Hong Kong, for the attention of the Company Secretary.

CORPORATE GOVERNANCE REPORT

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 2020 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 2020 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 119 of this annual report.

An analysis of the Group's performance during the year ended 31 December 2020 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 section headed "Environmental, Social and Governance" on pages 37 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 145 and page 146 respectively. The financial position as at 31 December 2020 of the Group are set out in the Consolidated Statement of Financial Position on pages 147 to 148. The cash flow of the Group during the year is set out in the Consolidated Statement of Cash Flows on pages 150 to 151.

SHARE CAPITAL

The changes in share capital of the Group during the year are set out in note 32 to the Financial Statements.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: 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 17 May 2021 (Monday)

- Closure of register of members 18 May 2021 (Tuesday) to 24 May 2021 (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 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 34 to the Financial Statements.

As at 31 December 2020, 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 percentages of sales for the year attributable to the Group's major customers and the percentages of purchases for the year attributable to the Group's major suppliers are as follows:

- the largest customer 9.9%
- five largest customers in aggregate 28.1%
- the largest supplier 3.8%
- five largest suppliers in aggregate 10.0%

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.

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$459,404.

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 headed "Directors and Senior Management" of this annual report.

REPORT OF THE BOARD OF DIRECTORS

In accordance with the articles of association of the Company, and based on the Listing Rules, Mr. Song Zhenghuan, Mr. Xia Xinyue, Ms. Fu Jingqiu and Mr. Ho Kwok Yin, Eric 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 40 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 2020, 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 2020.

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.

SHARE OPTION SCHEME

On 5 November 2010, the Company adopted a share option scheme ("2010 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.

As the 2010 Share Option Scheme expired on the tenth anniversary of its adoption, and to enable the Company to continue to grant share options to eligible participants as incentives or rewards for their contributions to the success of the Group, the Company terminated the 2010 Share Option Scheme and approved and adopted a new share option scheme (the "2020 Share Option Scheme") at its annual general meeting held on 25 May 2020. Upon termination of the 2010 Share Option Scheme, no further options may be granted thereunder but the provisions of the 2010 Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior to the termination.

Eligible participants of the share option schemes 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 2020 Share Option Scheme.

With the approval of the shareholders of the Company in general meetings, the Directors may "refresh" the scheme limit under the share option schemes.

Pursuant to the shareholders' approval obtained by the Company and its annual general meeting held on 25 May 2017, the original scheme limit of the 2010 Share Option Scheme 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 2010 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.

Pursuant to the shareholders' approval obtained by the Company and its annual general meeting held on 25 May 2020, the maximum number of share options currently permitted to be granted under the 2020 Share Option Scheme is 166,802,317, representing 10% of the shares of the Company in issue as at 25 May 2020.

On 19 June 2020, in order to effectively incentivize the existing grantees of the share options, the Company allowed grantees of share options granted on 28 August 2017, 27 March 2018, 28 May 2018 and 23 May 2019 to exchange their existing share options for new share options to be granted under the 2020 Share Option Scheme. For further details, please refer to the announcement of the Company dated 19 June 2020.

During the year under review, the Company proposed 47,321,000 share options on 19 June 2020, of which 26,084,500 were accepted and 21,236,500 were not accepted under the 2020 Share Option Scheme. The Company further granted 5,542,000 share options on 11 December 2020 under the 2020 Share Option Scheme.

Under the 2010 Share Options Scheme, 96,650,000 share options were cancelled (of which 3,000,000 share options were cancelled with the exercise price of HK$3.88, 45,300,000 share options were cancelled with the exercise price of HK$4.54, 5,600,000 share options were cancelled with the exercise price of HK$5.122 and 42,750,000 share options were cancelled with the exercise price of HK$3.75), 5,550,000 share options were lapsed and none of share options exercised during 2020.

Under the 2020 share option scheme, 21,236,500 share options were cancelled with exercise price of HK$0.96, none of the share options had lapsed and none of the share options exercised during 2020.

As at 31 December 2019, 211,280,000 share options were outstanding. And as at 31 December 2020, 140,706,500 share options were outstanding under the 2010 Share Option Scheme and the 2020 Share Option Scheme in total.

REPORT OF THE BOARD OF DIRECTORS

Movements of the share options granted during the year ended 31 December 2020 were as follows:

Name of Director/ Associate	Date of grant	Exercise Price (HK$)	Number of share options: Outstanding as at 1 January 2020	Granted during this year	Exercised during this year	Cancelled/Lapsed during this year	Outstanding as at 31 December 2020	Percentage of total issued share capital[1]	Exercise period	Closing price of securities immediately before the date of grant (HK$)
Mr. Song Zhenghuan	29 September 2014	3.58	1,390,000	–	–	–	1,390,000	0.083%	29 September 2014 to 28 September 2024[2]	3.49
Mr. Martin Pos	29 September 2014	3.58	2,400,000	–	–	–	2,400,000	0.144%	29 September 2014 to 28 September 2024[2]	3.49
	27 March 2018	4.54	35,000,000	–	–	(17,500,000)	17,500,000	1.049%	27 March 2018 to 27 March 2028[6]	4.12
	19 June 2020	0.96	–	1,680,000	–	(840,000)	840,000	0.050%	27 September 2020 to 27 March 2028	0.92
			–	2,520,000	–	(1,260,000)	1,260,000	0.076%	27 September 2021 to 27 March 2028	
			–	4,200,000	–	(2,100,000)	2,100,000	0.126%	27 September 2022 to 27 March 2028	
Mr. Xia Xinyue	27 March 2018	4.54	20,000,000	–	–	(10,000,000)	10,000,000	0.600%	27 March 2018 to 27 March 2028[6]	4.12
	19 June 2020	0.96	–	960,000	–	(480,000)	480,000	0.029%	27 September 2020 to 27 March 2028	0.92
			–	1,440,000	–	(720,000)	720,000	0.043%	27 September 2021 to 27 March 2028	
			–	2,400,000	–	(1,200,000)	1,200,000	0.072%	27 September 2022 to 27 March 2028	
Mr. Liu Tongyou	29 September 2014	3.58	2,400,000	–	–	–	2,400,000	0.144%	29 September 2014 to 28 September 2024[2]	3.49
	23 May 2019	3.75	12,600,000	–	–	(6,300,000)	6,300,000	0.378%	23 May 2019 to 22 May 2029[8]	1.94
	19 June 2020	0.96	–	781,200	–	(390,600)	390,600	0.023%	23 May 2022 to 22 May 2029	0.92
			–	1,171,800	–	(585,900)	585,900	0.035%	23 May 2023 to 22 May 2029	
			–	1,953,000	–	(976,500)	976,500	0.059%	23 May 2024 to 22 May 2029	
Mr. Michael Nan Qu	29 September 2014	3.58	1,600,000	–	–	–	1,600,000	0.096%	29 September 2014 to 28 September 2024[2]	3.49
	23 May 2019	3.75	10,000,000	–	–	(10,000,000)	0	0%	23 May 2019 to 22 May 2029[8]	1.94
	19 June 2020	0.96	–	620,000	–	–	620,000	0.037%	23 May 2022 to 22 May 2029	0.92
			–	930,000	–	–	930,000	0.056%	23 May 2023 to 22 May 2029	
			–	1,550,000	–	–	1,550,000	0.093%	23 May 2024 to 22 May 2029	

Name of Director/ Associate	Date of grant	Exercise Price (HK$)	Number of share options: Outstanding as at 1 January 2020	Granted during this year	Exercised during this year	Cancelled/Lapsed during this year	Outstanding as at 31 December 2020	Percentage of total issued share capital[1]	Exercise period	Closing price of securities immediately before the date of grant (HK$)
Ms. Fu Jingqiu	29 September 2014	3.58	1,390,000	–	–	–	1,390,000	0.083%	29 September 2014 to 28 September 2024[2]	3.49
	23 May 2019	3.75	1,300,000	–	–	(700,000)	600,000	0.036%	23 May 2019 to 22 May 2029[8]	1.94
	19 June 2020	0.96	–	80,600	–	(37,200)	43,400	0.0026%	23 May 2022 to 22 May 2029	0.92
			–	120,900	–	(55,800)	65,100	0.0039%	23 May 2023 to 22 May 2029	
			–	201,500	–	(93,000)	108,500	0.0065%	23 May 2024 to 22 May 2029	
Mr. Ho Kwok Yin, Eric	29 September 2014	3.58	1,000,000	–	–	–	1,000,000	0.060%	29 September 2014 to 28 September 2024[2]	3.49
	27 March 2018	4.54	400,000	–	–	(400,000)	0	0%	27 March 2018 to 27 March 2028[6]	4.12
	19 June 2020	0.96	–	19,200	–	–	19,200	0.001%	27 September 2020 to 27 March 2028	0.92
			–	28,800	–	–	28,800	0.002%	27 September 2021 to 27 March 2028	
			–	48,000	–	–	48,000	0.003%	27 September 2022 to 27 March 2028	
Mr. Iain Ferguson Bruce	29 September 2014	3.58	800,000	–	–	–	800,000	0.048%	29 September 2014 to 28 September 2024[2]	3.49
	27 March 2018	4.54	400,000	–	–	(400,000)	0	0%	27 March 2018 to 27 March 2028[6]	4.12
	19 June 2020	0.96	–	19,200	–	–	19,200	0.001%	27 September 2020 to 27 March 2028	0.92
			–	28,800	–	–	28,800	0.002%	27 September 2021 to 27 March 2028	
			–	48,000	–	–	48,000	0.003%	27 September 2022 to 27 March 2028	
Mr. Shi Xiaoguang	29 September 2014	3.58	800,000	–	–	–	800,000	0.048%	29 September 2014 to 28 September 2024[2]	3.49
	27 March 2018	4.54	400,000	–	–	(400,000)	0	0%	27 March 2018 to 27 March 2028[6]	4.12
	19 June 2020	0.96	–	19,200	–	–	19,200	0.001%	27 September 2020 to 27 March 2028	0.92
			–	28,800	–	–	28,800	0.002%	27 September 2021 to 27 March 2028	
			–	48,000	–	–	48,000	0.003%	27 September 2022 to 27 March 2028	

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Name of Director/ Associate	Date of grant	Exercise Price (HK$)	Number of share options: Outstanding as at 1 January 2020	Granted during this year	Exercised during this year	Cancelled/Lapsed during this year	Outstanding as at 31 December 2020	Percentage of total issued share capital[1]	Exercise period	Closing price of securities immediately before the date of grant (HK$)
Ms. Chiang Yun	29 September 2014	3.58	800,000	–	–	–	800,000	0.048%	29 September 2014 to 28 September 2024[2]	3.49
	27 March 2018	4.54	400,000	–	–	(400,000)	0	0%	27 March 2018 to 27 March 2028[6]	4.12
	19 June 2020	0.96	–	19,200	–	–	19,200	0.001%	27 September 2020 to 27 March 2028	0.92
			–	28,800	–	–	28,800	0.002%	27 September 2021 to 27 March 2028	
			–	48,000	–	–	48,000	0.003%	27 September 2022 to 27 March 2028	
Mr. Jin Peng	27 March 2018	4.54	400,000	–	–	(400,000)	0	0%	27 March 2018 to 27 March 2028[6]	4.12
	19 June 2020	0.96	–	19,200	–	–	19,200	0.001%	27 September 2020 to 27 March 2028	0.92
			–	28,800	–	–	28,800	0.002%	27 September 2021 to 27 March 2028	
			–	48,000	–	–	48,000	0.003%	27 September 2022 to 27 March 2028	
Ms. Sharon Nan Kobler *(associate of Mr.Song Zhenghuan and Ms. Fu Jingqiu)*	23 May 2019	3.75	2,000,000	–	–	(2,000,000)	0	0%	23 May 2019 to 22 May 2029[8]	1.94
	19 June 2020	0.96	–	124,000	–	–	124,000	0.007%	23 May 2022 to 22 May 2029	0.92
			–	186,000	–	–	186,000	0.011%	23 May 2023 to 22 May 2029	
			–	310,000	–	–	310,000	0.019%	23 May 2024 to 22 May 2029	
Mr. Martin Patrick Pos *(associate of Mr.Martin Pos)*	11 December 2020	1.01	–	310,000	–	–	310,000	0.019%	Refer to note [10]	1.00
Total number held by Directors	29 September 2014	3.58	12,580,000	–	–	–	12,580,000	0.754%	29 September 2014 to 28 September 2024[2]	3.49
	27 March 2018	4.54	57,000,000	–	–	(29,500,000)	27,500,000	1.649%	27 March 2018 to 27 March 2028[6]	4.12
	23 May 2019	3.75	23,900,000	–	–	(17,000,000)	6,900,000	0.414%	23 May 2019 to 22 May 2029[8]	1.94
	19 June 2020	0.96	–	21,089,000	–	(8,739,000)	12,350,000	0.740%	Refer to note[9]	0.92

Name of Director/ Associate	Date of grant	Exercise Price	Number of share options							Closing price of securities immediately before the date of grant
			Outstanding as at 1 January 2020	Granted during this year	Exercised during this year	Cancelled/Lapsed during this year	Outstanding as at 31 December 2020	Percentage of total issued share capital[1]	Exercise period	
		(HK$)								(HK$)
Total number held by Associates	23 May 2019	3.75	2,000,000	–	–	(2,000,000)	0	0%	23 May 2019 to 22 May 2029[8]	1.94
	19 June 2020	0.96	–	620,000	–	–	620,000	0.037%	Refer to note[9]	0.92
	11 December 2020	1.01	–	310,000	–	–	310,000	0.019%	Refer to note[10]	1.00
Total number held by other participants	29 September 2014	3.58	12,500,000	–	–	–	12,500,000	0.749%	29 September 2014 to 28 September 2024[3]	3.49
	7 October 2015	3.75	11,000,000	–	–	(800,000)	10,200,000	0.612%	7 October 2015 to 6 October 2025[4]	3.66
	28 August 2017	3.88	3,000,000	–	–	(3,000,000)	0	0%	28 August 2017 to 27 August 2027[5]	3.69
	27 March 2018	4.54	20,300,000	–	–	(16,300,000)	4,000,000	0.240%	27 March 2018 to 27 March 2028[6]	4.12
	28 May 2018	5.122	10,200,000	–	–	(6,600,000)	3,600,000	0.216%	28 May 2018 to 27 May 2028[7]	4.92
	23 May 2019	3.75	58,800,000	–	–	(27,000,000)	31,800,000	1.906%	23 May 2019 to 22 May 2029[8]	1.94
	19 June 2020	0.96	–	25,612,000	0	(12,497,500)	13,114,500	0.786%	Refer to note[9]	0.92
	11 December 2020	1.01	–	5,232,000	0	0	5,232,000	0.314%	Refer to note[10]	1.00

Notes:

(1) The percentage is calculated based on the total number of 1,668,023,166 shares in issue as at 31 December 2019 and 31 December 2020.

(2) The share options are exercisable within a period of 10 years from 29 September 2014 and subject to the following vesting schedule and performance review:

(i) one third of the share options vested on 29 September 2017;

(ii) one third of the share options vested on 29 September 2018; and

(iii) the remaining one third of the share options vested on 29 September 2019.

(3) The share options are exercisable within a period of 10 years from 29 September 2014 and subject to the following vesting schedule and performance review:

(i) for some grantees, the share options shall be vested on 29 September 2018; and

(ii) for the remaining grantees, one third of the share options vested on 29 September 2017, one third of the share options vested on 29 September 2018 and the remaining one third of the share options vested on 29 September 2019.

(4) The share options are exercisable within a period of 10 years from 7 October 2015 and subject to the following vesting schedule and performance review:

(i) one third of the share options vested on 7 October 2018;

(ii) one third of the share options vested on 7 October 2019; and

(iii) the remaining one third of the share options vested on 7 October 2020.

(5) The share options are exercisable within a period of 10 years from 28 August 2017 and subject to the following vesting schedule and performance review:

(i) one third of the share options vested on 28 August 2020;

(ii) one third of the share options vested on 28 August 2021; and

(iii) the remaining one third of the share options vested on 28 August 2022.

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(6) The share options are exercisable within a period of 10 years from 27 March 2018 and subject to the following vesting schedule and performance review:

(i) 20% of the share options vested on 27 September 2020;

(ii) another 30% of the share options vested on 27 September 2021; and

(iii) the remaining share options vested on 27 September 2022.

(7) The share options are exercisable within a period of 10 years from 28 May 2018 and subject to the following vesting schedule and performance review:

(i) 20% of the share options vested on 28 May 2021;

(ii) another 30% of the share options vested on 28 May 2022; and

(iii) the remaining share options vested on 28 May 2023.

(8) The share options are exercisable within a period of 10 years from 23 May 2019 and subject to the following vesting schedule and performance review:

(i) 20% of the share options vested on 23 May 2022;

(ii) another 30% of the share options vested on 23 May 2023; and

(iii) the remaining share options vested on 23 May 2024.

(9) Among the 26,084,500 share options, the vesting schedule and exercise period are as follows:

(i) 280,000 share options will be vested on 28 August 2020 and exercisable until 27 August 2027;

(ii) 280,000 share options will be vested on 28 August 2021 and exercisable until 27 August 2027;

(iii) 280,000 share options will be vested on 28 August 2022 and exercisable until 27 August 2027;

(iv) 2,174,000 share options will be vested on 27 September 2020 and exercisable until 27 March 2028;

(v) 3,261,600 share options will be vested on 27 September 2021 and exercisable until 27 March 2028;

(vi) 5,436,000 share options will be vested on 27 September 2022 and exercisable until 27 March 2028;

(vii) 224,000 share options will be vested on 28 May 2021 and exercisable until 27 May 2028;

(viii) 336,000 share options will be vested on 28 May 2022 and exercisable until 27 May 2028;

(ix) 560,000 share options will be vested on 28 May 2023 and exercisable until 27 May 2028;

(x) 2,650,500 share options will be vested on 23 May 2022 and exercisable until 22 May 2029;

(xi) 3,975,750 share options will be vested on 23 May 2023 and exercisable until 22 May 2029; and

(xii) 6,626,250 share options will be vested on 23 May 2024 and exercisable until 22 May 2029.

(10) The share options are exercisable within a period of 10 years from 11 December 2020 and subject to the following vesting schedule and performance review:

(i) 20% of the share options vested on 11 December 2023;

(ii) another 30% of the share options vested on 11 December 2024; and

(iii) the remaining share options vested on 11 December 2025.

As at 31 December 2020, the total number of shares available for issue under the 2020 Share Option Scheme was 135,295,817 shares, which represented 8.11% of the shares in issue as at the date of this annual report.

The options issued pursuant to the 2010 Share Option scheme and the 2020 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 maximum 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 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$1.00 in total by the grantee. 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 Company's shares for the five trading days immediately preceding the date of offer; 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 2020 Share Option Scheme, the 2020 Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption which was 25 May 2020, after which no further options will be granted or offered but the provisions of the 2020 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 2020 Share Option Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Schemes as set out in note 33 to the consolidated financial statements, 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.

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

As at 31 December 2020, 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	769,639,427(L)	46.14%
Mr. Martin Pos	Beneficial owner	73,747,293 (L)	4.42%
Mr. Xia Xinyue	Beneficial owner	12,400,000 (L)	0.74%
Mr. Liu Tongyou ("Mr. Liu") (Note 3)	Beneficial owner/ Interest of controlled corporation	39,710,573 (L)	2.38%
Mr. Michael Nan Qu	Beneficial owner/ Interest of spouse	4,809,000 (L)	0.29%
Ms. Fu Jingqiu ("Ms. Fu") (Notes 2 & 5)	Beneficiary of a trust/Beneficial owner/Interest of spouse	769,639,427 (L)	46.14%
Mr. Ho Kwok Yin, Eric	Beneficial owner	1,096,000 (L)	0.07%
Mr. Iain Ferguson Bruce	Beneficial owner	896,000 (L)	0.05%
Mr. Shi Xiaoguang	Beneficial owner	896,000 (L)	0.05%
Ms. Chiang Yun	Beneficial owner	896,000 (L)	0.05%
Mr. Jin Peng	Beneficial owner	96,000 (L)	0.01%

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 10,653,000 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	24,100,000
Mr. Xia Xinyue	12,400,000
Mr. Liu Tongyou	10,653,000
Mr. Michael Nan Qu	4,700,000
Ms. Fu Jingqiu	2,207,000
Mr. Ho Kwok Yin, Eric	1,096,000
Mr. Iain Ferguson Bruce	896,000
Mr. Shi Xiaoguang	896,000
Ms. Chiang Yun	896,000
Mr. Jin Peng	96,000

(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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2020, 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	Interest of Controlled Corporation	156,448,000 (L)	9.38%
Pandanus Associates Inc.	Interest of Controlled Corporation	156,448,000 (L)	9.38%
Pandanus Partners L.P.	Interest of Controlled Corporation	156,448,000 (L)	9.38%
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 CHINA SPECIAL SITUATIONS PLC	Beneficial Owner	86,014,000 (L)	5.16%

Notes:

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

(2) PUD is owned as to approximately 53.13% by Cayey Enterprises Limited, which in turn is, as at 31 December 2020, 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 2020 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 2020.

CONNECTED TRANSACTIONS

The Group's related parties transactions marked with "#" for the year ended 31 December 2020 set out in note 40 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.

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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 2020 was RMB10,568,900 (approximately HK$11,878,000).

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 constitutes 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*

(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.

REPORT OF THE BOARD OF DIRECTORS

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 2020 was RMB1,831,695 (approximately HK$2,058,000).

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 constitutes 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 Goodbaby China Holdings Limited ("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 2020 was RMB10,817,000 (approximately HK$12,156,000). 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.

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).

REPORT OF THE BOARD OF DIRECTORS

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$84,800,000 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$85,000,000 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.

APRIL 2021 FACILITY AGREEMENT

To refinance certain existing bank loans, on 13 April 2021, Goodbaby (Hong Kong) Limited, a wholly-owned subsidiary of the Company (as borrower), the Company (as guarantor), one financial institution (as mandated lead arranger and bookrunner and underwriter, facility agent and security agent) and certain financial institutions (as original lenders) entered into a facility agreement (the "Facility Agreement") in respect of a US$165,000,000 term loan facility with a term of 36 months from the first utilization date. The total commitment under the Facility Agreement may be increased by not more than US$85,000,000 by way of accession(s) of additional lender(s). With this refinance, the debt structure of the Company will be optimized and relevant finance cost will be improved.

Under the Facility Agreement, if (a) Song Zhenghuan ("Mr. Song") (together with his family, including his or his spouse's family trust) is, collectively, no longer the single largest beneficial shareholder of the Company; or (b) Mr. Song (together with his family, including his or his spouse's family trust) collectively, no longer beneficially owns at least 30% of the issued share capital of the Company, then the Borrower shall:

i. immediately notify the facility agent thereof. Forthwith after the occurrence of such event or circumstance, no further utilisation shall be made and all the available facility shall be automatically cancelled in full ; and

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

If the shares in the Company are beneficially owned by any person mentioned above through one or more corporations ("holding companies") controlled by such person(s) (whether acting alone or together), then the entire shareholding of such holding companies in the Company shall be taken into account in determining compliance with (a) and (b) above.

For further details, please also refer to the announcement of the Company dated 13 April 2021.

Save as disclosed above, as at 31 December 2020, the Company did not have other disclosure obligations under Rule 13.18 of the Listing Rules.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2020, the Group has a total of 9,375 full-time employees (as at 31 December 2019, the Group had a total of 11,180 full-time employees). For the year ended 31 December 2020, costs of employees, excluding Directors' emoluments, amounted to a total of HK$1,560.8 million (2019: HK$1,703.6 million). The Group determined the remuneration packages of all employees with reference to their position, competency, performance, value and market salary trend. 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 2010 Share Option Scheme adopted by the Company was terminated and the 2020 Share Option Scheme was adopted by the Company following the termination of the 2010 Share Option Scheme on the annual general meeting of the Company held on 25 May 2020. Details of the share option schemes 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.

REPORT OF THE BOARD OF DIRECTORS

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.

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.

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 43 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 2020.

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

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 2020 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 45 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 268 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.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

SUFFICIENT PUBLIC FLOAT

The Company has maintained sufficient public float of not less than 25% of the Company's issued shares as required by the Listing Rules for the year ended 31 December 2020.

AUDITORS

The financial statements of the Company for the year ended 31 December 2020 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

23 March 2021

Independent Auditor's 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 145 to 267, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("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$2,764 million and HK$1,755 million as at 31 December 2020, which represented 23% 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 2020, the provisions for product liabilities amounted to HK$77 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 27 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.

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, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT

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

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
23 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2020

	Notes	2020	2019
		(HK$'000)	
Revenue	5	8,304,967	8,777,142
Cost of sales		(4,636,930)	(4,996,484)
Gross profit		3,668,037	3,780,658
Other income and gains	5	90,048	74,116
Selling and distribution expenses		(2,131,438)	(2,274,966)
Administrative expenses		(1,145,615)	(1,170,329)
Other expenses		(50,972)	(19,544)
Finance income	6	5,956	4,543
Finance costs	7	(114,068)	(141,856)
Share of profits and losses of:			
Joint ventures		(1,143)	339
An associate		(105)	(131)
PROFIT BEFORE TAX	8	**320,700**	**252,830**
Income tax expense	11	(62,780)	(50,262)
PROFIT FOR THE YEAR		**257,920**	**202,568**
Attributable to:			
Owners of the parent		256,574	202,194
Non-controlling interests		1,346	374
		257,920	202,568
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	13		
Basic			
For profit for the year (HK$)		0.15	0.12
Diluted			
For profit for the year (HK$)		0.15	0.12

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2020

	2020	2019
	(HK$'000)	
PROFIT FOR THE YEAR	**257,920**	**202,568**
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) 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	8,692	3,794
Reclassification adjustments for gains included in the consolidated statement of profit or loss	(5,890)	(2,341)
Income tax effect	(326)	(218)
	2,476	1,235
Exchange differences on translation of foreign operations	397,393	(123,711)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	399,869	(122,476)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Actuarial gains/(loss) of defined benefit plans	1,219	(1,724)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	1,219	(1,724)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**401,088**	**(124,200)**
TOTAL COMPREHENSIVE INCOME	**659,008**	**78,368**
Attributable to:		
Owners of the parent	655,367	78,093
Non-controlling interests	3,641	275
	659,008	**78,368**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2020

	Notes	31 December 2020	31 December 2019
		(HK$'000)	
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,033,485	1,059,572
Right-of-use assets	15(a)	256,844	296,480
Goodwill	16	2,763,595	2,637,062
Other intangible assets	17	2,287,136	2,177,501
Investments in joint ventures		5,070	5,903
Investment in an associate		2,243	2,082
Deferred tax assets	30	98,237	121,569
Other long-term assets	18	11,328	8,781
Total non-current assets		6,457,938	6,308,950
CURRENT ASSETS			
Inventories	19	2,061,439	1,954,471
Trade and notes receivables	20	1,134,657	1,075,634
Prepayments and other receivables	21	464,690	441,332
Due from related parties	40	6,532	11,595
Financial assets at fair value through profit or loss	22	6,994	–
Cash and cash equivalents	23	1,693,152	1,054,615
Pledged deposits	23	25,702	24,031
Derivative financial instruments	24	17,683	6,334
Total current assets		5,410,849	4,568,012
CURRENT LIABILITIES			
Trade and bills payables	25	1,455,446	1,324,362
Other payables and accruals	26	908,563	808,158
Income tax payable		27,491	11,960
Provision	27	54,547	35,552
Interest-bearing bank loans and other borrowings	28	1,986,869	892,220
Lease liabilities	15(b)	95,600	98,388
Derivative financial instruments	24	6,003	4,571
Due to related parties	40	3,227	–
Defined benefit plan liabilities	29	388	631
Dividends payable		–	8
Total current liabilities		4,538,134	3,175,850

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2020

	Notes	31 December 2020	31 December 2019
		(HK$'000)	
NET CURRENT ASSETS		872,715	**1,392,162**
TOTAL ASSETS LESS CURRENT LIABILITIES		7,330,653	**7,701,112**
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	28	785,735	1,861,526
Provision	27	63,559	50,357
Defined benefit plan liabilities	29	4,232	5,201
Other liabilities	31	1,872	5,633
Lease liabilities	15(b)	123,177	156,808
Deferred tax liabilities	30	570,509	535,453
Total non-current liabilities		1,549,084	2,614,978
Net assets		5,781,569	5,086,134
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	16,680	16,680
Reserves	34	5,732,764	5,020,793
		5,749,444	5,037,473
Non-controlling interests		32,125	48,661
Total equity		5,781,569	5,086,134

SONG Zhenghuan
Director

LIU Tongyou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2020

	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 32)			(note 34)		(note 29)	(note 34)						
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**
At 31 December 2019 and 1 January 2020	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
Profit for the year	–	–	–	–	–	–	–	–	–	256,574	256,574	1,346	257,920
Remeasurement effects of defined benefit plans	–	–	–	–	–	1,219	–	–	–	–	1,219	–	1,219
Cash flow hedges, net of tax	–	–	–	–	–	–	–	–	2,476	–	2,476	–	2,476
Exchange differences on translation	–	–	–	–	395,098	–	–	–	–	–	395,098	2,295	397,393
Total comprehensive income for the year	–	–	–	–	395,098	1,219	–	–	2,476	256,574	655,367	3,641	659,008
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(4,377)	(4,377)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	13,395	–	–	13,395	(15,800)	(2,405)
Profit appropriation	–	–	–	2,139	–	–	–	–	–	(2,139)	–	–	–
Equity-settled share option arrangements	–	–	43,209	–	–	–	–	–	–	–	43,209	–	43,209
At 31 December 2020	16,680	3,320,401*	156,865*	218,797*	145,362*	4,985*	153,975*	(8,256)*	2,105*	1,738,530*	5,749,444	32,125	5,781,569

* These reserve accounts comprise the consolidated reserves of HK$5,732,764,000 (2019: HK$5,020,793,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2020

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES	**(HK$'000)**	
Profit before tax	320,700	252,830
Adjustments for:		
Finance costs	114,068	141,856
Share of profits and losses of joint ventures and an associate	1,248	(208)
Interest income	(5,956)	(4,543)
Gain on wealth investment products received	(17,752)	(2,853)
Loss on disposal of items of property, plant and equipment	14,559	9,462
Loss on disposal of Intangible assets	776	–
Fair value losses/(gains), net		
Cash flow hedges (transfer from equity)	152	323
Derivative instruments – transactions not qualifying as hedges	(2,000)	–
Covid-19-related rent concessions from lessors	(3,605)	–
Depreciation of property, plant and equipment	287,922	266,015
Depreciation of right-of-use assets	121,318	95,236
Amortisation of other intangible assets	56,270	50,473
(Reversal)/provision of inventories	(7,765)	13,768
Provision for impairment of other receivables	1,431	10,119
Impairment of property, plant and equipment	10,962	–
Equity-settled share option expenses	43,209	44,660
	935,537	877,138
Increase in inventories	(115,077)	(24,262)
(Increase)/decrease in trade and notes receivables	(60,454)	11,287
Decrease/(increase) in prepayments and other receivables	43,916	(33,465)
Decrease/(increase) in amounts due from related parties	5,063	(24)
Increase in pledged deposits	(1,777)	–
Increase in derivative financial assets	(11,349)	(3,347)
Increase in other long-term assets	(2,547)	(782)
Increase/(decrease) in trade and bills payables	131,199	(115,012)
Increase in other payables and accruals	119,979	23,776
Increase in provision	32,197	3,479
Increase in derivative financial liabilities	1,432	3,513
Increase in amounts due to related parties	3,227	–
Decrease in defined benefit plan liabilities	(1,212)	(2,154)
Decrease in other liabilities	(3,761)	(8,320)
Cash generated from operations	1,076,373	731,827
Income tax paid	(21,485)	(45,600)
Net cash flows generated from operating activities	1,054,888	686,227

	Note	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES		(HK$'000)	
Interest received		5,956	4,543
Gain on wealth investment products received		17,752	2,853
Investment in an associate		–	(2,213)
Purchase of property, plant and equipment		(244,876)	(289,487)
Addition to other intangible assets		(33,583)	(17,842)
Proceeds from disposal of property, plant and equipment		9,443	15,079
Purchase of Financial assets at fair value through profit or loss through profit or loss		(6,994)	–
Disposal of a subsidiary		(4)	–
Decrease in time deposits		–	3,447
Net cash flows used in investing activities		(252,306)	(283,620)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		10,907,450	5,984,638
Repayment of bank borrowings		(10,891,721)	(6,005,395)
Interest paid		(120,143)	(125,214)
Principal portion of lease payments		(113,233)	(83,813)
Decrease/(Increase) in pledged deposits		106	(24,031)
Acquisition of non-controlling interests		(2,405)	–
Net cash flows used in financing activities		(219,946)	(253,815)
NET INCREASE IN CASH AND CASH EQUIVALENTS		582,636	148,792
Cash and cash equivalents at beginning of year		1,054,615	926,952
Effect of foreign exchange rate changes, net		55,901	(21,129)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	1,693,152	1,054,615

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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 design, research and development ("R&D"), manufacturing, marketing 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 place of operation	Percentage of equity interest attributable to the Company		Issued ordinary/ registered share capital	Principal activities
Subsidiaries		**Direct**	**Indirect**		
Goodbaby (Hong Kong) Limited ("GBHK")	Hong Kong, 23 July 1999	100%	–	HK$1,001	Investment holding and sales agent company
Goodbaby Child Products Co., Ltd. ("GCPC") (Note (a), (b) and (c))	The People's Republic of China ("PRC"), 18 November 1994	–	100%	United States Dollar ("US$") 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") (Note (a) and (b))	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") (Note (a), (b) and (c))	PRC, 5 November 2008	–	100%	US$1,430,000	Manufacture, distribution and sale of bicycles, sports utilities, e-cars and wooden products
Pingxiang Goodbaby Child Products Co., Ltd. ("GCPX") (Note (a) and (b))	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") (Note (a) and (b))	PRC, 30 November 2012	–	100%	RMB50,000,000	Testing of children's products, tools, electronic products and advisory service 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 place of operation	Percentage of equity interest attributable to the Company		Issued ordinary/registered share capital	Principal activities
Subsidiaries		Direct	Indirect		
Columbus Trading-Partners GmbH & Co. KG ("CTPE")	Germany, 26 February 2016	–	100%	Euro ("EUR") 100	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 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") (Note (a), (b) and (c))	PRC, 11 May 2016	–	100%	RMB50,000,000	Wholesale and retail of children's products
Shanghai Goodbaby Children Fashion Co., Ltd. ("SHFS") (Note (a) and (b))	PRC, 20 January 1998	–	100%	RMB20,000,000	Distribution and retail business of children's products
Goodbaby Nantong Fashion Co., Ltd. ("NTFS") (Note (a) and (b))	PRC, 19 March 2015	–	80%	RMB10,000,000	Wholesale and retail of children's products

Note (a) Limited liability companies established in the PRC

Note (b) English names for identification only

Note (c) Registered as a wholly-foreign-owned enterprise in the PRC

Note (d) During the year, the Group disposed of its equity interest in Goodbaby Commercial (Fuyang) Co., Ltd. Further details of this disposal are included in note 35 to the financial statements

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. CORPORATE AND GROUP INFORMATION (Continued)

INFORMATION ABOUT SUBSIDIARIES (Continued)

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.

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 2020. 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 *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements:

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to IAS 1 and IAS 8	*Definition of Material*

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i)the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's office buildings and retail stores have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$3,605,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(e) 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, or both. The amendments did not have any significant impact on the financial position and 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	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*[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 IFRS 17	*Insurance Contracts*[3,5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to IFRS Standards 2018-2020	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41*[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is 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, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank and other borrowings denominated in US$ and foreign currencies based on the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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

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 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *IFRS 9 Financial Instruments:* clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- *IFRS 16 Leases:* removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN AN ASSOCIATE AND JOINT VENTURES

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 joint ventures 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 and joint ventures is included as part of the Group's investment in an associate and joint ventures.

When an investment in an associate or 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*.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS AND GOODWILL (Continued)

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.

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENT (Continued)

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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.

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	–

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (Continued)

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$1,755,034,000 (2019: HK$1,652,609,000) 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL) (Continued)

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES (Continued)

Group as a lessee (Continued)

(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. 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:

Leasehold land	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.

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31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES (Continued)

Group as a lessee (Continued)

(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 lease. 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.

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)

Subsequent measurement (Continued)

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (Continued)

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).

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

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES (Continued)

Subsequent measurement (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

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 2020

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or deduction of expense on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Forgivable loan from government, the repayment of which will be waived under certain prescribed conditions, is to be treated as a government grant and recognized as deferred income when there is reasonable assurance that the Group will meet the terms for forgiveness of the loan. The deferred income liability would be recognized in the income statement as a reduction to the related expense on a systematic and rational basis over the periods that the costs, for which it is intended to compensate, are expensed.

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 with 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (Continued)

Revenue from contracts with customers (Continued)

(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.

(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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (Continued)

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.

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 33 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SHARE-BASED PAYMENTS (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER EMPLOYEE BENEFITS (Continued)

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. 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 employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute part of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension 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.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Defined benefit plans

The Group operates defined benefit pension plans with details summarised in note 29. The costs of providing benefits under the defined benefit plans are determined using the projected unit credit actuarial valuation method.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER EMPLOYEE BENEFITS (Continued)

Defined benefit plans (Continued)

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

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. The Board did not recommend the payment of any dividend for the years ended 31 December 2020 and 2019.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES (Continued)

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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.

JUDGEMENTS

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

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 2020 was approximately HK$2,763,595,000 (2019: HK$2,637,062,000). Further details are given in note 16.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

ESTIMATION UNCERTAINTY (Continued)

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.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

ESTIMATION UNCERTAINTY (Continued)

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 2020 was HK$12,275,000 (2019: HK$31,713,000). The amount of unrecognised tax losses at 31 December 2020 was HK$71,367,000 (2019: Nil). Details of unrecognised tax losses as at the end of the reporting period are contained in note 30.

Forgivable loans

During the financial year, the Group applied for forgivable loans and used loan proceeds for qualifying expenses of eligible payroll costs, rent obligation and utility payments incurred by the Group's foreign operations. As of balance sheet date, in light of the applicable rules and guidance that the Group has met the required good faith certification requirements as well as demonstrated the Group's economic need for the loan to support the foreign entities 'ongoing operations at the time of application, and complied with the applicable eligibility rules, including use of proceeds for qualified expenses, and continue to meet the eligibility requirements for loan on forgiveness, and the management has reasonable assurance that the full amount fulfilled the forgiveness terms. In the event that it was later determined to have not been in compliance with these requirements or it is otherwise determined that was ineligible to receive the forgivable loans, the Group may be required to repay the forgivable loans in its entirely and/or subject to additional charges. If the Group subsequently revises its estimates of forgiveness, it recognises a liability for any amounts previously included in the income statement and recognises a corresponding loss in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

ESTIMATION UNCERTAINTY (Continued)

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.

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 29 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) the 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) the 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) the non-durable products segment, which includes maternity and baby-care products and apparel and home textile products; and

(d) the "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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2020

	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Consolidated
	(HK$'000)				
Segment revenue					
Sales to external customers	2,779,713	2,695,213	1,524,610	1,305,431	8,304,967
Segment results					
Reconciliation:	1,313,266	1,245,272	661,664	447,835	3,668,037
Other income and gains					90,048
Corporate and other unallocated expenses					(3,286,920)
Other expenses					(50,972)
Finance income					5,956
Finance costs (other than interest on lease liabilities)					(104,201)
Share of profits and losses of joint ventures					(1,143)
Share of profits and losses of an associate					(105)
Profit before tax					**320,700**
Other segment information:					
Impairment losses recognised in the statement of profit or loss, net	3,588	(1,963)	1,677	1,326	4,628
Depreciation and amortisation	176,447	172,181	63,098	53,784	465,510

4. OPERATING SEGMENT INFORMATION (Continued)

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					(3,456,828)
Other expenses					(19,544)
Finance income					4,543
Finance costs (other than interest on lease liabilities)					(130,323)
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 2020

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 2020					
Segment revenue:					
Sales to external customers	2,544,738	2,619,957	2,670,910	469,362	8,304,967
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

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2020	2019
	(HK$'000)	
Mainland China	4,243,555	4,164,959
North America	1,024,665	1,057,290
Europe	1,072,841	956,475
	6,341,061	**6,178,724**

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 an investment in an associate.

INFORMATION ABOUT A MAJOR CUSTOMER

During the year ended 31 December 2020, revenue from sales to a major customer of third party is HK$820,669,000 (2019: HK$862,681,000). The revenue from sales to this customer was derived from sales by the strollers and accessories, car seats and accessories and others segments, including sales to a group of entities which are known to be under common control with this customer.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020	2019
	(HK$'000)	
Revenue from contracts with customers		
Sale of goods	8,277,221	8,751,553
Rendering of testing services	27,746	25,589
	8,304,967	8,777,142

REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Disaggregated revenue information

For the year ended 31 December 2020

Segments	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Total
	(HK$'000)				
Type of goods or services					
Sale of goods	2,779,713	2,695,213	1,524,610	1,277,685	8,277,221
Rendering of testing services	–	–	–	27,746	27,746
Total revenue from contracts with customers	2,779,713	2,695,213	1,524,610	1,305,431	8,304,967
Timing of revenue recognition					
Goods transferred at a point in time	2,779,713	2,695,213	1,524,610	1,277,685	8,277,221
Services transferred at a point in time	–	–	–	27,746	27,746
Total revenue from contracts with customers	2,779,713	2,695,213	1,524,610	1,305,431	8,304,967
Revenue from contracts with customers					
External customers	2,779,713	2,695,213	1,524,610	1,305,431	8,304,967

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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:

	2020	2019
	(HK$'000)	
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	135,885	93,746

(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 2020 are as follows:

	2020	2019
	(HK$'000)	
Amounts expected to be recognised as revenue:		
Within one year	146,226	135,885

All the remaining performance obligations are expected to be satisfied within one year.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

	2020	2019
	(HK$'000)	
Other income and gains:		
Government grants (note (a))	62,313	62,109
Gain on wealth investment products (note (b))	17,752	2,853
Compensation income (note (c))	2,626	3,964
Fair value gains, net		
Derivative instruments – transactions not qualifying as hedges	2,000	–
Gains on call/put options over non-controlling interests	2,603	3,436
Others	2,754	1,754
Total	**90,048**	**74,116**

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 to support operations during the COVID-19, 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 or shipment delay in the normal course of business.

6. FINANCE INCOME

	2020	2019
	(HK$'000)	
Interest income on bank deposits	**5,956**	**4,543**

7. FINANCE COSTS

	2020	2019
	(HK$'000)	
Interest on bank loans, overdrafts and other loans	104,201	130,323
Interest on lease liabilities	9,867	11,533
	114,068	**141,856**

NOTES TO FINANCIAL STATEMENTS

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8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2020	2019
		(HK$'000)	
Cost of inventories sold		4,624,175	4,986,650
Cost of services provided		12,755	9,834
Depreciation of property, plant and equipment	14	287,922	266,015
Depreciation of right-of-use assets	15(a)	121,318	95,236
Amortisation of intangible assets	17	56,270	50,473
Research and development costs		339,125	345,649
Lease payments not included in the measurement of lease liabilities	15(c)	30,638	60,465
Auditors' remuneration		9,808	9,788
Employee benefit expense (including directors' remuneration):			
Wages, salaries and other benefits*		1,520,603	1,623,155
Share option expense		43,209	44,660
Pension scheme costs (defined benefit plans) (including administrative expense)		140	1,340
Pension scheme contributions		70,481	96,815
		1,634,433	1,765,970
Net foreign exchange loss		17,103	9
Impairment of trade receivables	20	1,431	10,119
(Reversal)/provision of inventories		(7,765)	13,768
Product warranties and liabilities		111,336	38,601
Fair value (gains)/losses, net:			
Cash flow hedges (transfer from equity)		152	323
Derivative instruments – transactions not qualifying as hedges		(2,000)	–
Financial assets at fair value through profit or loss		(17,752)	–
Gains on call/put options over non-controlling interests		(2,603)	(3,436)
Loss on disposal of items of property, plant and equipment		14,559	9,462
Loss on disposal of intangible assets		776	–
Bank interest income		(5,956)	(4,543)
Impairment of property, plant and equipment		10,962	–

* During the financial year, government grant of HK$45,576,000 received by the Group have been deducted to the related employee benefit expense.

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:

	2020	2019
	(HK$'000)	
Fees	3,353	3,696
Other emoluments:		
Salaries, allowances and benefits in kind	26,371	27,017
Performance-related bonuses	15,502	1,331
Equity-settled share option expenses	28,161	30,003
Pension scheme contributions	292	294
	70,326	58,645
	73,679	62,341

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to independent non-executive directors during the year were as follows:

	2020	2019
	(HK$'000)	
Iain Ferguson Bruce	466	470
Shi Xiaoguang	310	313
Chiang Yun	310	313
Jin Peng	233	235
	1,319	**1,331**

There were no other emoluments payable to the independent non-executive directors in 2020 (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

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9. DIRECTORS' REMUNERATION (Continued)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

2020

	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	–	3,348	–	–	–	3,348
Michael, Qu Nan	–	3,226	786	754	48	4,814
Martin Pos	–	12,788	10,657	16,670	–	40,115
Liu Tongyou	–	3,527	2,135	950	122	6,734
Xia Xinyue	–	3,482	1,924	9,526	122	15,054
	–	**26,371**	**15,502**	**27,900**	**292**	**70,065**
Non-executive directors:						
Eric, Ho Kwok Yin	659	–	–	163	–	822
Fu Jinqiu	1,375	–	–	98	–	1,473
	2,034	**–**	**–**	**261**	**–**	**2,295**

9. DIRECTORS' REMUNERATION (Continued)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS (Continued)

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

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2019: four), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2019: one) non-directors, highest paid employees for the year are as follows:

	2020	2019
	(HK$'000)	
Salaries, allowances and benefits in kind	6,836	3,380
Performance related bonuses	2,896	1,800
Pension scheme contributions	227	105
	9,959	**5,285**

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
HK$4,000,001 to HK$4,500,000	1	–
HK$5,000,001 to HK$5,500,000	–	1
HK$5,500,001 to HK$6,000,000	1	–
	2	**1**

No amounts were paid by the Group to of the directors or highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2019: None).

11. INCOME TAX

The Company and its subsidiaries incorporated in the Cayman Islands and the British Virgin Islands("BVI"), respectively, are exempted from taxation.

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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 (2019: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

11. INCOME TAX (Continued)

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 2.5% 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, two of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC") and EQO Testing and Certification Services Co.,Ltd. ("EQTC"), are qualified as "High and New Technology Enterprises" and are entitled to a preferential tax rate of 15% from 2020 to 2022.

The major components of income tax expense of the Group are as follows:

	2020	2019
	(HK$'000)	
Current – income tax		
Charge for the year	42,953	48,207
Deferred income tax (note 30)	19,827	2,055
Income tax expense reported in the statement of profit or loss	62,780	50,262

NOTES TO FINANCIAL STATEMENTS

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11. INCOME TAX (Continued)

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:

	2020	2019
	(HK$'000)	
Profit before tax	320,700	252,830
Expected income tax based on different rates applicable to profits in the countries covered	70,918	56,360
Effect of tax losses not recognized	12,201	–
Recognition of deferred tax assets related to previously unrecognised deductible temporary differences and tax losses	–	(4,901)
Tax credit arising from additional deduction of R&D expenditures of PRC subsidiaries	(17,526)	(14,710)
Tax effect on non-taxable income	(11,231)	(670)
Tax effect on non-deductible expenses	8,418	14,183
Income tax expense	62,780	50,262

12. DIVIDENDS

The Board did not recommend the payment of any dividend for the years ended 31 December 2020 and 2019.

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 (2019: 1,668,023,166).

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 2020.

The calculation of earnings per share is based on:

	2020	2019
	(HK$'000)	
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**256,574**	**202,194**

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,668,023,166	1,668,023,166
Effect of dilution – weighted average number of ordinary shares:		
Share options	–*	–
Total	1,668,023,166	1,668,023,166

* No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2020 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.

NOTES TO FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT

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	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
				(HK$'000)			
At 31 December 2019 and at 1 January 2020:							
Cost	595,032	1,167,878	23,442	501,392	182,629	74,485	2,544,858
Accumulated depreciation	(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**
At 1 January 2020, net of accumulated depreciation	275,774	472,349	9,769	139,049	88,146	74,485	1,059,572
Additions	2,924	41,901	371	21,254	100,399	78,027	244,876
Disposals	–	(15,673)	(107)	(1,668)	–	(6,554)	(24,002)
Disposal of a subsidiary	–	–	(20)	(7)	–	–	(27)
Depreciation provided during the year	(40,704)	(141,852)	(2,525)	(56,957)	(45,884)	–	(287,922)
Impairment	(393)	(9,704)	(15)	(850)	–	–	(10,962)
Transfers	3,032	70,547	–	7,785	3,395	(84,759)	–
Exchange realignment	8,991	25,709	382	3,007	13,571	290	51,950
At 31 December 2020, net of accumulated depreciation and impairment	**249,624**	**443,277**	**7,855**	**111,613**	**159,627**	**61,489**	**1,033,485**
At 31 December 2020:							
Cost	628,895	1,265,590	23,745	545,931	301,499	61,489	2,827,149
Accumulated depreciation and impairment	(379,271)	(822,313)	(15,890)	(434,318)	(141,872)	–	(1,793,664)
Net carrying amount	**249,624**	**443,277**	**7,855**	**111,613**	**159,627**	**61,489**	**1,033,485**

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

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**

At 31 December 2020, certain of the Group's machinery with a net carrying amount of approximately HK$10,810,000 (2019: HK$17,346,000) was pledged to secure a bank loan granted to the Group (note 28).

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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) Right-Of-Use Assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land	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 and 1 January 2020	47,949	234,151	2,302	11,594	484	296,480
Additions	–	53,012	944	14,500	452	68,908
Modification	–	(715)	–	(254)	–	(969)
Depreciation charge	(1,023)	(107,641)	(1,495)	(10,459)	(700)	(121,318)
Exchange realignment	1,588	10,834	(10)	1,309	22	13,743
As at 31 December 2020	**48,514**	**189,641**	**1,741**	**16,690**	**258**	**256,844**

15. LEASES (Continued)

THE GROUP AS A LESSEE (Continued)

(B) Lease Liabilities

	2020	2019
	(HK$'000)	
Carrying amount at 1 January	255,196	220,483
New leases	68,908	123,193
Modification	(969)	–
Covid-19-related concessions from lessors	(3,605)	–
Interest expense	9,867	11,533
Payments	(123,100)	(95,346)
Exchange realignment	12,480	(4,667)
Carrying amount at 31 December	218,777	255,196
Analysed into:		
Current portion	95,600	98,388
Non-current portion	123,177	156,808

(C) The amounts recognised in profit or loss in relation to leases are as follows:

	2020	2019
	(HK$'000)	
Interest on lease liabilities	9,867	11,533
Depreciation charge of right-of-use assets	121,318	95,236
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	29,037	60,353
Variable lease payments not included in the measurement of lease liabilities	1,562	79
Covid-19-related rent concessions from lessors	(3,605)	–
Expense relating to leases of low-value assets	39	33
At end of year	158,218	167,234

(D) The total cash outflow for leases is disclosed in note 36(c) to the financial statements.

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16. GOODWILL

	(HK$'000)
Cost and net carrying amount at 1 January 2019	2,682,108
Exchange realignment	(45,046)
Cost and net carrying amount at 31 December 2019 and 1 January 2020	2,637,062
Exchange realignment	126,533
Cost and net carrying amount at 31 December 2020	**2,763,595**

IMPAIRMENT TESTING OF CASH-GENERATING UNITS ("CGU")

Goodwill is allocated to the following CGU for impairment testing:

	2020	2019
	(HK$'000)	
Manufacture and export of stroller-related products unit	14,826	13,975
Evenflo unit	610,816	613,569
Columbus unit	212,717	194,641
NICAM unit	5,744	5,255
Oasis Dragon unit	1,919,492	1,809,622
	2,763,595	2,637,062

Trademarks with indefinite useful lives are allocated to the following CGU for impairment testing:

	2020	2019
	(HK$'000)	
Evenflo unit	136,934	137,551
Columbus unit	375,787	343,854
Oasis Dragon unit	1,242,313	1,171,204
	1,755,034	1,652,609

16. GOODWILL (Continued)

IMPAIRMENT TESTING OF CASH-GENERATING UNITS ("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 2020 was 16.3% (2019: 16.3%).

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 2020 was 12.6% (2019: 12.1%).

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 2020 was 15.4% (2019: 15.0%).

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 2020 was 14.2% (2019: 14.8%).

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 five-year period approved by senior management. The growth rate used to extrapolate the cash flows of Oasis Dragon unit beyond the five-year period is 3%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2020 was 14.9% (2019: 14.4%).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

16. GOODWILL (Continued)

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.

17. OTHER INTANGIBLE ASSETS

31 DECEMBER 2020

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2019 and at 1 January 2020:						
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**
At 1 January 2020, net of accumulated amortisation	1,667,833	40,388	72	428,910	40,298	2,177,501
Additions	30	26,558	–	2,539	2,180	31,307
Disposals	–	(776)	–	–	–	(776)
Amortisation provided during the year	(2,013)	(9,752)	–	(39,399)	(5,106)	(56,270)
Exchange realignment	103,704	(365)	3	29,266	2,766	135,374
At 31 December 2020, net of accumulated depreciation	**1,769,554**	**56,053**	**75**	**421,316**	**40,138**	**2,287,136**
At 31 December 2020:						
Cost	1,801,992	110,534	7,785	575,172	77,718	2,573,201
Accumulated amortisation	(32,438)	(54,481)	(7,710)	(153,856)	(37,580)	(286,065)
Net carrying amount	**1,769,554**	**56,053**	**75**	**421,316**	**40,138**	**2,287,136**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

17. OTHER INTANGIBLE ASSETS (Continued)

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**

18. OTHER LONG-TERM ASSETS

Other long-term assets represent call options over non-controlling interests of HK$1,716,000 (2019: HK$672,000) arising from the acquisition of subsidiaries and a deposit for insurance over one year of HK$9,612,000 (2019: HK$8,109,000).

19. INVENTORIES

	2020	2019
	(HK$'000)	
Raw materials	327,355	330,609
Work in progress	46,705	47,840
Finished goods	1,687,379	1,576,022
	2,061,439	1,954,471

20. TRADE AND NOTES RECEIVABLES

	2020	2019
	(HK$'000)	
Trade receivables	1,163,236	1,100,028
Notes receivable	2,905	3,770
	1,166,141	1,103,798
Impairment of the trade receivables	(31,484)	(28,164)
	1,134,657	1,075,634

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.

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:

	2020	2019
	(HK$'000)	
Within 3 months	1,064,257	1,003,174
3 to 6 months	39,776	45,694
6 months to 1 year	18,433	12,296
Over 1 year	9,286	10,700
	1,131,752	1,071,864

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

20. TRADE AND NOTES RECEIVABLES (Continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020	2019
	(HK$'000)	
At beginning of year	28,164	37,531
Impairment losses, net	1,431	10,119
Amounts written off as uncollectible	–	(19,946)
Exchange realignment	1,889	460
At end of year	**31,484**	**28,164**

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.

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 2020

	Within 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Expected credit loss rate	0.04%	0.13%	3.25%	76.57%	2.71%
Gross carrying amount (HK$'000)	1,064,721	39,829	19,052	39,634	1,163,236
Expected credit losses (HK$'000)	**464**	**53**	**619**	**30,348**	**31,484**

20. TRADE AND NOTES RECEIVABLES (Continued)

AS AT 31 DECEMBER 2019

	Within 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
	(HK$'000)				
Expected credit loss rate	0.12%	0.16%	50.20%	57.48%	2.56%
Gross carrying amount (HK$'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**

21. PREPAYMENTS AND OTHER RECEIVABLES

	2020	2019
	(HK$'000)	
Prepayments	103,168	110,715
Other receivables	361,522	330,617
	464,690	441,332

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 2020 and 2019, the loss allowance was assessed to be minimal.

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22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2020	As at 31 December 2019
	(HK$'000) (Audited)	
Wealth investment products	6,994	–

Financial assets at fair value through profit of loss represented the wealth investment products placed with licensed financial institution in Mainland China and it can be redeemed at any time.

23. CASH AND CASH EQUIVALENTS

	2020	2019
	(HK$'000)	
Cash and bank balances	1,718,854	1,078,646
Less: Pledged deposits	25,702	24,031
Cash and cash equivalents	**1,693,152**	**1,054,615**
Denominated in US$	556,005	209,808
Denominated in RMB	922,934	619,353
Denominated in EUR	167,395	182,458
Denominated in HK$	17,156	13,780
Denominated in other currencies	55,364	53,247
Cash and bank balances	**1,718,854**	**1,078,646**

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.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2020	
	Assets	Liabilities
	(HK$'000)	
Forward currency contracts		
– designated as hedging instruments	17,683	6,003

	2019	
	Assets	Liabilities
	(HK$'000)	
Forward currency contracts		
– designated as hedging instruments	6,334	4,571

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

NOTES TO FINANCIAL STATEMENTS

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24. 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 2020						
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	146,214	–	–	–	–	146,214
Average forward rate (US$/RMB)	7.1012	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	344,815	235,153	300,758	262,806	240,302	1,383,834
Average forward rate (EUR/RMB)	8.1242	8.0639	8.1226	8.1831	8.2712	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	19,649	35,282	36,760	39,719	12,254	143,664
Average forward rate (GBP/EUR)	1.1109	1.1093	1.1073	1.1054	1.1040	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	13,922	3,249	–	–	–	17,171
Average forward rate (JPY/EUR)	0.0085	0.0084	–	–	–	

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 2020				
Foreign currency forward contracts	583,151	17,683	Derivative financial instruments (assets)	17,683
Foreign currency forward contracts	1,107,732	(6,003)	Derivative financial instruments (liabilities)	(6,003)

24. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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 2020		
Highly probable forecast sales	9,575	2,105

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 2020								
Highly probable forecast sales	8,692	(1,490)	7,202	Other income and gains	(5,890)	1,164	(4,726)	Revenue

25. 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:

	2020	2019
	(HK$'000)	
Within 3 months	1,186,600	1,125,977
3 to 12 months	261,273	189,929
1 to 2 years	5,332	5,839
2 to 3 years	1,483	2,051
Over 3 years	758	566
	1,455,446	**1,324,362**

The trade and bills payables are non-interest-bearing and normally settled on terms of 60 to 90 days. The carrying amounts of the trade and notes payables approximate to their fair values due to their short term maturity.

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31 DECEMBER 2020

26. OTHER PAYABLES AND ACCRUALS

		2020	2019
		(HK$'000)	
Other payables	(a)	235,874	208,341
Contract liabilities	(b)	146,226	135,885
Accruals		526,463	463,932
		908,563	**808,158**

(a) Other payables are non-interest-bearing and repayable on demand.

(b) Details of contract liabilities are as follows:

	31 December 2020	31 December 2019
	(HK$'000)	
Short-term advances from customers		
Sale of goods	146,043	135,712
Rendering of testing services	183	173
	146,226	**135,885**

Contract liabilities include short-term advances received to deliver goods and render testing services. The increase in contract liabilities in 2020 was mainly due to the increase in short-term advances from customers in relation to the sale of goods.

27. PROVISION

	Product warranties and liabilities
	(HK$'000)
Balance at 1 January 2019	82,430
Additional provision	38,601
Amounts utilised	(34,390)
Exchange realignment	(732)
Balance at 31 December 2019 and 1 January 2020	85,909
Additional provision	111,613
Reversal of unutilized amounts	(277)
Amounts utilised	(81,894)
Exchange realignment	2,755
Balance at 31 December 2020	118,106
Portion classified as current liabilities	54,547
Non-current portion	63,559

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 2020, the amount of product warranties was HK$40,724,000.

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 2020, the amount of product liabilities was HK$77,382,000.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

		As at 31 December 2020		As at 31 December 2019	
		Maturity	HK$'000	Maturity	HK$'000
Current					
Bank overdrafts – secured	Note (a)	2021	291,772	2020	293,351
Bank overdrafts – unsecured	Note (a)	2021	283	2020	3,020
Current portion of long-term bank loans – secured	Note (b)	2021	1,690,214	2020	256,320
Bank borrowings – secured	Note (b)	2021	4,135	2020	338,283
Promissory note	Note (c)	2021	465	2020	1,246
			1,986,869		892,220
Non-current					
Bank borrowings – secured	Note (b)	2022-2023	548,187	2021-2023	1,860,903
Bank borrowings – unsecured		2022	237,083		–
Promissory note	Note (c)	2022	465	2021-2022	623
			785,735		**1,861,526**
Total			**2,772,604**		**2,753,746**

Note (a): The bank overdraft facilities amounted to HK$414,807,000, of which HK$292,055,000 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 2020, 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 a subsidiary of the Group; and

(iii) certain machinery amounting to HK$10,810,000.

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.

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 1.05% to 6% (2019: 0.80% to 6%).

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (Continued)

	Group	
	2020	2019
	(HK$'000)	
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year	1,986,869	892,220
In the second year	774,925	1,306,738
In the third to fifth years, inclusive	10,810	554,788
	2,772,604	**2,753,746**

29. 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.

The defined benefit pension plan was terminated during 2019. All assets were distributed in the settlement of obligations and the pension trust was closed.

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29. 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)**	**–**	**–**

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 2020.

Key assumptions used in the accounting for post-retirement benefits are summarised below.

	2020	2019
Discount rate (%)	2.0	2.9
Current healthcare cost trend rate (%)	5.8	6.0
Ultimate healthcare cost trend rate (%)	5.0	5.0

29. 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)
2020				
Discount rate	0.5	189	0.5	204
Healthcare trend rate	1.0	127	1.0	(146)
2019				
Discount rate	0.5	(216)	0.5	232
Healthcare trend rate	1.0	132	1.0	(165)

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:

	2020	2019
	(HK$'000)	
Interest cost	140	227
Net benefit cost	**140**	**227**
Recognised in administrative expenses	**140**	**227**

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29. 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:

	2020	2019
	(HK$'000)	
At 1 January	(5,832)	(6,051)
Interest cost	(140)	(227)
Remeasurement effects recognised in other comprehensive income	1,210	141
Benefits paid directly by the Group	116	259
Exchange differences on a foreign plan	26	46
At 31 December	**(4,620)**	**(5,832)**

29. 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:

2020

		Cost charged to profit or loss			Remeasurement gains/(losses) in other comprehensive income					
	1 January 2020	Net interest expense	Sub-total included in profit or loss	Benefit paid	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 differences	31 December 2020
	(HK$'000)									
Benefit obligations	(5,832)	(140)	(140)	116	62	(39)	1,187	1,210	26	(4,620)
Benefit liabilities	**(5,832)**	**(140)**	**(140)**	**116**	**62**	**(39)**	**1,187**	**1,210**	**26**	**(4,620)**

2019

		Cost charged to profit or loss			Remeasurement gains/(losses) in other comprehensive income					
	1 January 2019	Net interest expense	Sub-total included in profit or loss	Benefit paid	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 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)**

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30. 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 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 and 1 January 2020	11,644	36,609	30,288	31,713	71,719	23,445	205,418
Credited/(charged) to profit or loss (note 11)	(590)	(4,567)	3,998	(20,270)	(9,206)	(3,831)	(34,466)
Charged to other comprehensive income	–	–	–	–	–	(1,031)	(1,031)
Exchange realignment	335	1,478	405	832	(1,924)	2,434	3,560
As at 31 December 2020	**11,389**	**33,520**	**34,691**	**12,275**	**60,589**	**21,017**	**173,481**

The Group has tax losses arising in Germany of HK$18,762,000 (2019: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Hong Kong of HK$48,637,000 (2019: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$3,968,000 (2019: Nil) 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.

30. DEFERRED TAX (Continued)

DEFERRED TAX LIABILITIES:

	Withholding tax on undistributed profits	Depreciation	Lease	Other intangible assets	Others	Total
	(HK$'000)					
At 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 and 1 January 2020	(16,834)	(22,947)	(36,108)	(534,733)	(8,680)	(619,302)
(Charged)/credited to profit or loss (note 11)	–	(3,443)	6,266	8,549	3,267	14,639
Credited to other comprehensive income	–	–	–	–	(605)	(605)
Exchange realignment	(2,887)	(2,997)	(1,312)	(34,474)	1,185	(40,485)
At 31 December 2020	**(19,721)**	**(29,387)**	**(31,154)**	**(560,658)**	**(4,833)**	**(645,753)**

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 2020 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 2020.

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30. DEFERRED TAX (Continued)

At 31 December 2020, 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$2,005,040,000 at 31 December 2020 (2019: HK$1,786,987,000).

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:

	2020	2019
	(HK$'000)	
Reflected in the consolidated statement of financial position:		
– Deferred tax assets	98,237	121,569
– Deferred tax liabilities	(570,509)	(535,453)

Deferred tax assets have not been recognised in respect of the following items:

	2020	2019
	(HK$'000)	
Tax losses	71,367	–

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

31. OTHER LIABILITIES

Included in other liabilities are employee compensation of HK$1,872,000 (2019:HK$1,899,000) of overseas subsidiaries, and put options over non-controlling interests was nil (2019: HK$3,734,000) arising from the acquisition of subsidiaries.

32. SHARE CAPITAL

	As at 31 December 2020	As at 31 December 2019
	(HK$'000)	
Issued and fully paid:		
1,668,023,000 (2019: 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 2020 and 31 December 2020	**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 33 to the financial statements.

	Number of shares in issue	Share capital	Share premium	Total
	('000)	(HK$'000)	(HK$'000)	(HK$'000)
At 1 January 2019	1,668,023	16,680	3,320,401	3,337,081
At 31 December 2019 and 1 January 2020	1,668,023	16,680	3,320,401	3,337,081
At 31 December 2020	**1,668,023**	**16,680**	**3,320,401**	**3,337,081**

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33. SHARE OPTION SCHEME

The share option scheme adopted by the Company on 5 November 2010 (the "2010 Share Option Scheme") was terminated and a new one was adopted by the Company following the termination of the 2010 Share Option Scheme on the annual general meeting of the Company held on 25 May 2020 (the "2020 Share Option Scheme").

The purpose of the share options schemes is to motivate the eligible participants to optimise their performance efficiency for the benefit of the Group; and attract and retain or otherwise maintain 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 share option schemes 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 share option schemes. The 2010 Share Option Scheme and the 2020 Share Option Scheme both have a term of 10 years. Upon termination of the 2010 Share Option Scheme mentioned above, no further options may be granted thereunder but the provisions of the 2010 Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior to the termination.

The maximum number of share options originally permitted to be granted under the 2010 Share Option 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 share options currently permitted to be granted under the 2020 Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 25 May 2020.The maximum number of shares issuable under share options to each eligible participant under the 2010 Share Option Scheme and 2020 Share Option 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.

33. SHARE OPTION SCHEME (Continued)

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange 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.

On 19 June 2020, the Board announced that the Company shall allow holders of the existing share options (the "Existing Share Options") granted on 28 August 2017, 27 March 2018, 28 May 2018 and 23 May 2019 under the 2010 Share Option Scheme to exchange their Existing Share Options for new share options to be granted under the 2020 Share Option Scheme. As at 19 June 2020, none of the above share options was vested.

A total of 96,650,000 Existing Share Options were cancelled under the 2010 Share Option Scheme and replaced by a total of 26,084,500 new share options with an exercise price of HK$0.96 per share under the 2020 Share Option Scheme (the "Replacement Options).

The exchange ratio of the Replacement Options to Existing Share Options were based on their fair values on the modification date, i.e. 19 June 2020.

(A) 2010 SHARE OPTION SCHEME

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 2019	4.299	133,031
Granted during the year	3.750	85,300
Forfeited during the year	3.688	(7,051)
At 31 December 2019 and 1 January 2020	4.087	211,280
Forfeited during the year	4.068	(5,550)
Cancelled during the year	4.200	(96,650)
At 31 December 2020	**3.984**	**109,080**

No share options were exercised during the years ended 31 December 2020 and 2019.

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33. SHARE OPTION SCHEME (Continued)

(A) 2010 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:

2020

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
3,400	3.75	7 October 2018 to 6 October 2025
3,400	3.75	7 October 2019 to 6 October 2025
3,400	3.75	7 October 2020 to 6 October 2025
6,300	4.54	27 September 2020 to 27 March 2028
9,450	4.54	27 September 2021 to 27 March 2028
15,750	4.54	27 September 2022 to 27 March 2028
720	5.122	28 May 2021 to 27 May 2028
1,080	5.122	28 May 2022 to 27 May 2028
1,800	5.122	28 May 2023 to 27 May 2028
7,741	3.75	23 May 2022 to 22 May 2029
11,610	3.75	23 May 2023 to 22 May 2029
19,350	3.75	23 May 2024 to 22 May 2029
109,080		

33. SHARE OPTION SCHEME (Continued)

(A) 2010 SHARE OPTION SCHEME (Continued)

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		

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33. SHARE OPTION SCHEME (Continued)

(B) 2020 SHARE OPTION SCHEME

	Weighted average exercise price	Number of options
	HK$ per share	'000
Granted and accepted during the year*	0. 969	31,627

The exercise prices and exercise periods of the above share options outstanding at the end of the reporting period are as follows.

Number of options	Exercise price	Exercise period
'000	HK$ per share	
280	0.96	28 August 2020 to 27 August 2027
280	0.96	28 August 2021 to 27 August 2027
280	0.96	28 August 2022 to 27 August 2027
2,174	0.96	27 September 2020 to 27 March 2028
3,262	0.96	27 September 2021 to 27 March 2028
5,436	0.96	27 September 2022 to 27 March 2028
224	0.96	28 May 2021 to 27 May 2028
336	0.96	28 May 2022 to 27 May 2028
560	0.96	28 May 2023 to 27 May 2028
2,651	0.96	23 May 2022 to 22 May 2029
3,976	0.96	23 May 2023 to 22 May 2029
6,626	0.96	23 May 2024 to 22 May 2029
1,108	1.01	11 December 2023 to 10 December 2030
1,663	1.01	11 December 2024 to 10 December 2030
2,771	1.01	11 December 2025 to 10 December 2030
31,627		

33. SHARE OPTION SCHEME (Continued)

(B) 2020 SHARE OPTION SCHEME (Continued)

* On 19 June 2020, the Company proposed 47,321,000 share options, of which 26,084,500 were accepted and 21,236,500 were not accepted under the 2020 Share Option Scheme. The Company further granted 5,542,000 share options on 11 December 2020 under the 2020 Share Option Scheme.

The Group recognised a share option expense of HK$43,209,000 (2019: HK$44,660,000) for the year ended 31 December 2020.

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 19 June 2020	Share options granted on 11 December 2020
Dividend yield (%)	–	–
Spot stock price (HK$ per share)	0.96	1.00
Historical volatility (%)	43.8-44.9	43.6
Risk-free interest rate (%)	0.45-0.60	0.75
Expected life of options (year)	7.19-8.93	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.

At the end of the reporting period, the Company had 109,080,000 and 31,626,500 share options outstanding under the 2010 Share Option Scheme and 2020 Share Option Scheme, respectively. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 140,706,500 additional ordinary shares of the Company and additional share capital of HK$1,407,065 and share premium of HK$463,842,725 (before issue expenses).

At the date of approval of these financial statements, the Company had 109,080,000 and 31,409,500 share options outstanding under the 2010 Share Option Scheme and 2020 Share Option Scheme respectively, which represented approximately 6.54% and 1.88% of the Company's shares in issue as at that date.

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34. 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-foreign-owned enterprises ("WFOE") 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 WFOE is required to appropriate at least 10% of its net profit after tax to the reserve fund until the balance of this fund reaches 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 the 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.

34. RESERVES (Continued)

MERGER RESERVE

As at 31 December 2020, 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.

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35. DISPOSAL OF A SUBSIDIARY

	2020 (HK$'000)
Net assets disposed of:	
Property, plant and equipment	27
Cash and bank balances	4
Inventories	15,874
Prepayments and other receivables	1,244
Trade and bills payables	(115)
Other payables and accruals	(8,102)
Non-controlling interests	(4,377)
	4,555
Gain on disposal of a subsidiary	–
	4,555
Satisfied by:	
Prepayments and other receivables	**4,555**

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2020 (HK$'000)
Cash and bank balances disposed of	(4)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(4)**

36. 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$67,939,000 (2019: HK$123,193,000).and HK$67,939,000(2019: HK$123,193,000), respectively, in respect of lease arrangements for plant and equipment.

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Changes in liabilities arising from financing activities:

	Interest-bearing bank loans and other borrowings
	(HK$'000)
At 1 January 2019	2,777,190
Changes from financing cash flows	(20,757)
Foreign exchange realignment	(2,687)
At 1 January 2020	2,753,746
Changes from financing cash flows	15,729
Foreign exchange realignment	3,129
	2,772,604

(c) Total cash outflow for leases:

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020
	(HK$'000)
Within operating activities	40,505
Within financing activities	123,100
	163,605

37. CONTINGENT LIABILITIES

In the ordinary course of business, the Group may from time to time be involved in legal proceedings and litigations. The Group records a liability when the Group believes that it is both probable that a loss has been incurred by the Group and the amount can be reasonably estimated. With respect to the Group's outstanding legal matters, notwithstanding that the outcome of such legal matters is inherently unpredictable and subject to uncertainties, the Group believes that, based on its current knowledge, the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on the Group's business, financial position, results of operations, or cash flows.

38. PLEDGE OF ASSETS

Details of the Group's assets pledged for business operation are included in notes 14, 23 and 28 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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39. COMMITMENTS

The Group had the following commitments as at 31 December:

(A) CAPITAL COMMITMENTS

The Group had the following capital commitments:

	2020	2019
	(HK$'000)	
Contracted, but not provided for, in respect of acquisition of:		
Property, plant and equipment	**2,915**	**13,718**

The Group had the following commitments as at 31 December:

(B) OTHER COMMITMENT

	2020	2019
	(HK$'000)	
Upfront fees of a term loan facilities	**3,101**	**11,339**

Pursuant to the term loan facility agreement in relation to the interest-bearing term loan facility of HK$775 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 of 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.

40. 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
Suzhou Goodbaby Qingtao Technology Service Co., Ltd. ("GCQT")	Joint venture
Goodbaby Mechatronics s.r.o.("GBMS")	Joint venture
Kunshan Goodbaby Tommee Tippee Child Products Co., Ltd.("GCTP")	Joint venture

(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:

	2020	2019
	(HK$'000)	
Sales of goods to related parties (note (a))		
CAGB and its subsidiaries#	12,156	29,730
Purchase of goods from related parties (note (b))		
GCQT	3,165	–
CAGB and its subsidiaries#	–	1
	3,165	1
Service charge from a related party (note (c))		
GCQT	419	–
Rental expenses to a related party (note (d))		
GGPX#	13,936	13,446

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 service charge from the related party was made according to the prices and terms agreed with the related party.

NOTES TO FINANCIAL STATEMENTS

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40.RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(B) RELATED PARTY TRANSACTIONS (Continued)

Note (d): The Group has 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 2020 was HK$13,936,000. At 31 December 2020, the Group recognised right-of-use assets of HK$13,403,000 and lease liabilities of HK$14,826,000. The transactions were made according to the prices and terms agreed with the related parties.

The related party transactions marked with # above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(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:		
CAGB and its subsidiaries#	4,739	11,595
GBMS	1,765	–
GCQT	28	–
	6,532	**11,595**
Right-of-use assets in relation to buildings recognised by the Group as a lessee to a related party		
GGPX	13,403	24,694
Lease liabilities due to a related party		
GGPX	14,826	25,880
Amounts due to related parties:		
GBMS	2,753	–
GCTP	474	–
	3,227	**–**

40. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(D) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2020	2019
	(HK$'000)	
Short term employee benefits	54,582	39,704
Equity-settled share option expense	34,691	35,334
Post-employment benefits	555	571
Director fees	–	–
Total compensation paid to key management personnel	**89,828**	**75,609**

Further details of directors' remuneration are included in note 9 to the financial statements.

41. 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	
	2020	2019	2020	2019
	(HK$'000)			
Financial assets				
Derivative financial instruments	17,683	6,334	17,683	6,334
Other long-term assets – call options over non-controlling interests	1,716	672	1,716	672
Financial assets at fair value through profit or loss	6,994	–	6,994	–
	26,393	**7,006**	**26,393**	**7,006**
Financial liabilities				
Derivative financial instruments	6,003	4,571	6,003	4,571
Put options over non-controlling interests	–	3,734	–	3,734
Interest-bearing bank loans and other borrowings (other than lease liabilities)	2,772,604	2,753,746	2,767,520	2,753,746
	2,778,607	**2,762,051**	**2,773,523**	**2,762,051**

NOTES TO FINANCIAL STATEMENTS

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41. 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.

41. 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 2020	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	6,994	–	6,994	–
Other long-term assets – call options over non-controlling interests	1,716	–	–	1,716
Derivative financial instruments	17,683	–	17,683	–
	26,393	**–**	**24,677**	**1,716**

	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**

NOTES TO FINANCIAL STATEMENTS

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY (Continued)

Assets measured at fair value: (Continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2020	2019
	(HK$'000)	
At 1 January	672	4,287
Remeasurement recognised in other income/(expenses)	915	(3,517)
Purchases	–	922,983
Disposals	–	(923,025)
Exchange realignment	129	(56)
At 31 December	**1,716**	**672**

During the year ended 31 December 2020, 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.

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.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY (Continued)

Liabilities for which fair values are disclosed:

	31 December 2020	Fair value measurement using		
		Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Derivative financial instruments	6,003	–	6,003	–
Interest-bearing bank loans and other borrowings (other than lease liabilities)	2,767,520	–	2,767,520	–
	2,773,523	**–**	**2,773,523**	**–**

	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 (other than lease liabilities)	2,753,746	–	2,753,746	–
	2,762,051	**–**	**2,758,317**	**3,734**

NOTES TO FINANCIAL STATEMENTS

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE HIERARCHY (Continued)

Liabilities for which fair values are disclosed: (Continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2020	2019
	(HK$'000)	
At 1 January	3,734	10,951
Remeasurement recognised in other income	(1,688)	(6,953)
Exercised	(2,405)	–
Exchange realignment	359	(264)
At 31 December	**–**	**3,734**

42. 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 2020

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
		(HK$'000)	
Trade and notes receivables	–	1,134,657	1,134,657
Financial assets included in prepayments and other receivables (note 21)	–	361,522	361,522
Financial assets at fair value through profit and loss	6,994	–	6,994
Due from related parties	–	6,532	6,532
Derivative financial instruments	17,683	–	17,683
Other long-term assets (note 18)	1,716	9,612	11,328
Pledged bank deposits	–	25,702	25,702
Cash and cash equivalents	–	1,693,152	1,693,152
	26,393	**3,231,177**	**3,257,570**

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**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

FINANCIAL LIABILITIES

As at 31 December 2020

	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 26)	–	235,874	235,874
Trade and bills payables	–	1,455,446	1,455,446
Interest-bearing bank loans and other borrowings	–	2,772,604	2,772,604
Derivative financial instruments	6,003	–	6,003
Due to related parties	–	3,227	3,227
	6,003	**4,467,151**	**4,473,154**

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 26)	–	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 31)	–	3,734	3,734
	4,571	**4,290,183**	**4,294,754**

43. 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 28.

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 2020	+5%/–5%	(5,703)/5,703
Year ended 31 December 2019	+5%/–5%	(7,093)/7,093

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.

NOTES TO FINANCIAL STATEMENTS

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43. 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. Such exposure arises from sales or purchases by operating units in currencies other than the units' functional currencies. The Group requires its operating units to use foreign currency forward contracts to eliminate the foreign currency exposures on any individual transactions, for which payment is anticipated more than three months after the Group has entered into a firm commitment for a sale or purchase. The foreign currency forward contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

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 US$ or 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).

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

FOREIGN CURRENCY RISK (Continued)

	Increase/ (decrease) in US$ rate	Increase/ (decrease) in profit before tax
	(HK$'000)	
Year ended 31 December 2020		
If US$ strengthens against RMB	5%	39,295
If US$ weakens against RMB	(5%)	(39,295)
If EUR strengthens against RMB	5%	26,975
If EUR weakens against RMB	(5%)	(26,975)
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)

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.

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK (Continued)

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	(HK$'000)				
Trade receivables*	–	–	–	1,134,657	1,134,657
Financial assets included in prepayments and other receivables					
– Normal**	361,522	–	–	–	361,522
Pledged bank deposits					
– Not yet past due	25,702	–	–	–	25,702
Cash and cash equivalents					
– Not yet past due	1,693,152	–	–	–	1,693,152
	2,080,376	**–**	**–**	**1,134,657**	**3,215,033**

43. 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**

* 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.

Concentrations of credit risk are managed by customer and geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 2020

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
			(HK$'000)			
Interests-bearing bank loans and other borrowings	–	326,783	1,704,529	787,241	–	2,818,553
Lease liabilities	–	30,445	65,155	123,177	–	218,777
Trade and bills payables	1,186,600	268,846	–	–	–	1,455,446
Derivative financial instruments	–	524,598	913,727	252,556	–	1,690,881
Due to related parties	3,227	–	–	–	–	3,227
Other payables	235,874	–	–	–	–	235,874
	1,425,701	**1,150,672**	**2,683,411**	**1,162,974**	**–**	**6,422,758**

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 loans 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**

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 and financial assets at fair value through profit and loss. Capital represents equity attributable to owners of the parent and less hedging reserve.

The gearing ratios at the end of the reporting periods were as follows:

	2020	2019
	(HK$'000)	
Trade and bills payables	1,455,446	1,324,362
Other payables and accruals	908,563	808,158
Interest-bearing bank loans and other borrowings	2,772,604	2,753,746
Less: Cash and cash equivalents	1,693,152	1,054,615
Less: Financial assets at fair value through profit and loss	6,994	–
Net debt	3,436,467	3,831,651
Equity attributable to owners of the parent	5,749,444	5,037,473
Less: Hedging reserve	2,105	(371)
Adjusted capital	5,747,339	5,037,844
Capital and net debt	**9,183,806**	**8,869,495**
Gearing ratio	**37%**	**43%**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

44. 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:

	2020	2019
	(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	337	329
Due from subsidiaries	612,117	596,431
Cash and cash equivalents	7,079	1,113
Total current assets	619,533	597,873
CURRENT LIABILITIES		
Short term loan	381,432	–
Accrued expenses	153	–
Dividend payables	–	8
Due to a subsidiary	922,834	1,298,011
Total current liabilities	1,304,419	1,298,019
NET CURRENT LIABILITIES	(684,886)	(700,146)
TOTAL ASSETS LESS CURRENT LIABILITIES	3,124,974	3,109,714
Net assets	3,124,974	3,109,714
EQUITY		
Share capital	16,680	16,680
Reserves (note)	3,108,294	3,093,034
Total equity	**3,124,974**	**3,109,714**

44. 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 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
Balance at 31 December 2019 and 1 January 2020	3,320,401	113,656	(341,023)	3,093,034
Loss for the year	–	–	(27,949)	(27,949)
Equity-settled share option arrangements	–	43,209	–	43,209
As at 31 December 2020	**3,320,401**	**156,865**	**(368,972)**	**3,108,294**

45. EVENTS AFTER THE REPORTING PERIOD

As previously disclosed, the outbreak of COVID-19 has caused certain impact on both the overall global markets and business performance of the Group, mainly due to global travel restrictions and other precautionary measures imposed by relevant 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 pandemic, and the outcome of various preventive measures undertaken by respective countries across the globe. The Group has been closely monitoring the market development and continuously evaluating the global impact of COVID-19 on the Group's operational and financial performance, and implementing series of action plans to minimize such impacts, including proactive operating cost control and working capital management.

Given the dynamic circumstances and uncertainties across the global markets to be recovered from the COVID-19 pandemic, the Group's financial performance during the pandemic period has inevitably been affected by the COVID-19 situation, and the Group will keep continuous attention on the development of COVID-19 and react actively to its impacts on the operation and financial position of the Group, which will be reflected in the Group's 2021 interim and annual financial statements.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2021.

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				
	2020	2019	2018	2017	2016
	(HK$'000)				
Results					
Revenue	8,304,967	8,777,142	8,629,115	7,142,566	6,238,179
Cost of sales	(4,636,930)	(4,996,484)	(4,967,782)	(4,395,786)	(4,126,715)
Gross profit	3,668,037	3,780,658	3,661,333	2,746,780	2,111,464
Other income and gains	90,048	74,116	98,303	41,115	59,101
Selling and distribution expenses	(2,131,438)	(2,274,966)	(2,208,873)	(1,332,515)	(982,468)
Administrative expenses	(1,145,615)	(1,170,329)	(1,207,135)	(1,103,495)	(924,260)
Other expenses	(50,972)	(19,544)	(16,803)	(39,429)	(50,199)
Operating Profit	430,060	389,935	326,825	312,456	213,638
Finance Income	5,956	4,543	3,867	4,617	3,347
Finance Costs	(114,068)	(141,856)	(123,576)	(65,506)	(55,166)
Share of profits and losses of a joint venture	(1,143)	339	407	(29)	26
Share of profits and losses of an associate	(105)	(131)	–	–	–
Profit before tax	320,700	252,830	207,523	251,538	161,845
Income tax (expense)/credit	(62,780)	(50,262)	(40,692)	(67,132)	50,395
Profit for the year	257,920	202,568	166,831	184,406	212,240
Attributable to:					
Owners of the parent	256,574	202,194	163,764	179,350	207,390
Non-controlling interests	1,346	374	3,067	5,056	4,850
	257,920	**202,568**	**166,831**	**184,406**	**212,240**

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2020	2019	2018	2017	2016
	(HK$'000)				
Total assets	11,868,787	10,876,962	10,618,485	10,964,571	5,518,738
Total liabilities	(6,087,218)	(5,790,828)	(5,655,379)	(5,798,704)	(3,040,576)
Non-controlling interests	(32,125)	(48,661)	(48,386)	(57,983)	(37,882)
	5,749,444	**5,037,473**	**4,914,720**	**5,107,884**	**2,440,280**

Goodbaby International

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

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