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Goodbaby

International

Goodbaby International Holdings Limited

好孩子國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 1086)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

Financial Highlights	For the six months ended 30 June		Year-on-year change
	2020	2019	
	<i>(HK\$ in millions, unless specified)</i>		
Revenue	3,718.1	4,434.2	-16.1%
Gross profit	1,545.8	1,915.1	-19.3%
Operating profit ¹	125.4	247.2	-49.3%
Non-GAAP ² operating profit	168.2	289.7	-41.9%
Profit for the period	54.3	136.3	-60.2%
Profit for the period attributable to owners of the parent	54.1	135.8	-60.2%
EPS (HK\$)			
– basic	0.03	0.08	
– diluted	0.03	0.08	
<i>Notes:</i>			
1.	Operating profit represents the total sum of gross profit, other income and gains, selling and distribution expenses, administrative expenses and other expenses.		
2.	We adopted non-GAAP financial measures in order to more clearly illustrate our financial results and to be more consistent with what we believe to be the industry practice. 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. Please see "Non-GAAP Financial Measures" for details.		

The board (the “**Board**”) of directors (“**Directors**”, each the “**Director**”) of Goodbaby International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to present the unaudited consolidated interim results of the Group for the six months ended 30 June 2020 (the “**Period**”), together with the comparative figures for the corresponding period in 2019 as below.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 (Unaudited) (HK\$'000)	2019 (Unaudited) (HK\$'000)
Revenue	4	3,718,095	4,434,224
Cost of sales		<u>(2,172,280)</u>	<u>(2,519,123)</u>
Gross profit		1,545,815	1,915,101
Other income and gains	4	78,655	36,386
Selling and distribution expenses		(945,775)	(1,141,598)
Administrative expenses		(539,094)	(550,524)
Other expenses		<u>(14,216)</u>	<u>(12,166)</u>
OPERATING PROFIT		125,385	247,199
Finance income	5	12,127	3,829
Finance costs	6	(69,041)	(73,706)
Share of losses of:			
joint ventures		(306)	(207)
An associate		<u>(43)</u>	<u>–</u>
PROFIT BEFORE TAX	7	68,122	177,115
Income tax expense	8	<u>(13,855)</u>	<u>(40,851)</u>
PROFIT FOR THE PERIOD		<u>54,267</u>	<u>136,264</u>
Attributable to:			
Owners of the parent		54,138	135,760
Non-controlling interests		<u>129</u>	<u>504</u>
		<u>54,267</u>	<u>136,264</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic	10		
For profit for the period (HK\$)		<u>0.03</u>	<u>0.08</u>
Diluted			
For profit for the period (HK\$)		<u>0.03</u>	<u>0.08</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) (HK\$'000)	2019 (Unaudited) (HK\$'000)
PROFIT FOR THE PERIOD	<u>54,267</u>	<u>136,264</u>
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges		
Effective portion of changes in fair value of hedging instruments arising during the period	4,468	7,213
Reclassification adjustments for losses included in the consolidated statement of profit or loss	4,343	1,398
Income tax effect	<u>(206)</u>	<u>(1,130)</u>
	8,605	7,481
Exchange differences:		
Exchange differences on translation of foreign operations	<u>(115,705)</u>	<u>(23,390)</u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	<u>(107,100)</u>	<u>(15,909)</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Actuarial gains of defined benefit plans	<u>643</u>	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>643</u>	–
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(106,457)</u>	<u>(15,909)</u>
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD	<u>(52,190)</u>	<u>120,355</u>
Attributable to:		
Owners of the parent	(52,015)	119,950
Non-controlling interests	<u>(175)</u>	<u>405</u>
	<u>(52,190)</u>	<u>120,355</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>Notes</i>	30 June 2020 (Unaudited) (HK\$'000)	31 December 2019 (Audited) (HK\$'000)
NON-CURRENT ASSETS			
Property, plant and equipment		971,274	1,059,572
Right-of-use assets		255,479	296,480
Goodwill		2,598,188	2,637,062
Other intangible assets		2,126,370	2,177,501
Investment in joint ventures		5,342	5,903
Investment in an associate		2,127	2,082
Deferred tax assets		116,734	121,569
Other long-term assets		10,298	8,781
		6,085,812	6,308,950
CURRENT ASSETS			
Inventories	11	1,632,925	1,954,471
Trade and notes receivables	12	1,021,853	1,075,634
Prepayments and other receivables		501,931	441,332
Due from related parties		3,962	11,595
Financial assets at fair value through profit or loss	15	164,864	–
Cash and cash equivalents		1,884,480	1,054,615
Pledged deposits		25,561	24,031
Derivative financial instruments	16	9,137	6,334
		5,244,713	4,568,012
CURRENT LIABILITIES			
Trade and bills payables	13	1,067,735	1,324,362
Other payables and accruals		718,455	808,158
Income tax payable		31,748	11,960
Provision		49,825	35,552
Interest-bearing bank loans and other borrowings	14	2,037,646	892,220
Lease liabilities		98,745	98,388
Derivative financial instruments	16	2,192	4,571
Due to a related party		1,538	–
Defined benefit plan liabilities		628	631
Dividends payable		8	8
		4,008,520	3,175,850
NET CURRENT ASSETS		1,236,193	1,392,162
TOTAL ASSETS LESS CURRENT LIABILITIES		7,322,005	7,701,112

	<i>Note</i>	30 June 2020 (Unaudited) (HK\$'000)	31 December 2019 (Audited) (HK\$'000)
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	<i>14</i>	1,565,810	1,861,526
Provision		50,732	50,357
Defined benefit plan liabilities		4,525	5,201
Other liabilities		1,725	5,633
Lease liabilities		120,397	156,808
Deferred tax liabilities		522,401	535,453
		<hr/>	<hr/>
Total non-current liabilities		2,265,590	2,614,978
		<hr/>	<hr/>
Net assets		5,056,415	5,086,134
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		16,680	16,680
Reserves		4,991,249	5,020,793
		<hr/>	<hr/>
		5,007,929	5,037,473
Non-controlling interests		48,486	48,661
		<hr/>	<hr/>
Total equity		5,056,415	5,086,134
		<hr/>	<hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. CORPORATE INFORMATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2020 were authorized for issue in accordance with a resolution of directors on 25 August 2020.

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

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

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The financial information is presented in Hong Kong Dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 3
Amendments to IFRS 9, IAS 39 and
IFRS 7

Amendments to IFRS 16
Amendments to IAS 1 and IAS 8

Definition of a Business
Interest Rate Benchmark Reform

COVID-19-Related Rent Concessions (early adopted)
Definition of Material

The nature and impact of the revised IFRSs are described below:

- (a) 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.
- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments 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.
- (c) 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 coronavirus disease 2019 (“COVID-19”) pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 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 retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 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 as a result of the COVID-19 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 COVID-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$3,453,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

- (d) 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. The amendments did not have any impact on the Group’s interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) Strollers and accessories segment, which engages in the research, design, manufacture and sale of strollers and accessories under the Group's own brands and third parties' brands;
- (b) Car seats and accessories segment, which engages in the research, design, manufacture and sale of car seats and accessories under the Group's own brands and third parties' brands;
- (c) Non-durable products segment, which includes maternity and baby-care products and apparel and home textile products; and
- (d) Others segment, which engages in the research, design, manufacture and sale of other children's products under the Group's own brands and third parties' brands.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment revenue.

Six months ended 30 June 2020

	Strollers and accessories (HK\$'000) (Unaudited)	Car seats and accessories (HK\$'000) (Unaudited)	Non-durable products (HK\$'000) (Unaudited)	Others (HK\$'000) (Unaudited)	Consolidated (HK\$'000) (Unaudited)
Segment revenue (note 4)					
Sales to external customers	1,250,308	1,223,860	695,871	548,056	3,718,095
Segment results	535,494	554,997	312,283	143,041	1,545,815
<i>Reconciliation:</i>					
Other income and gains					78,655
Corporate and other unallocated expenses					(1,489,921)
Other expenses					(14,216)
Finance income					12,127
Finance costs (other than interest on lease liabilities)					(63,989)
Share of losses of:					
Joint ventures					(306)
An associate					(43)
Profit before tax					68,122
Other segment information:					
Impairment losses recognised in the statement of profit or loss	(3,153)	(4,144)	4,599	(724)	(3,422)
Depreciation and amortization	88,044	78,409	30,580	24,836	221,869

Six months ended 30 June 2019

	Strollers and accessories (HK\$'000) (Unaudited)	Car seats and accessories (HK\$'000) (Unaudited)	Non-durable products (HK\$'000) (Unaudited)	Others (HK\$'000) (Unaudited)	Consolidated (HK\$'000) (Unaudited)
Segment revenue (note 4)					
Sales to external customers	1,433,230	1,503,019	839,647	658,328	4,434,224
Segment results	629,322	694,388	419,106	172,285	1,915,101
<i>Reconciliation:</i>					
Other income and gains					36,386
Corporate and other unallocated expenses					(1,696,882)
Other expenses					(12,166)
Finance income					3,829
Finance costs (other than interest on lease liabilities)					(68,946)
Share of losses of joint ventures					(207)
Profit before tax					177,115
Other segment information:					
Impairment losses recognised in the statement of profit or loss	3,264	2,634	(153)	370	6,115
Depreciation and amortization	73,265	76,064	21,859	24,444	195,632

Geographical information

(a) Revenue from external customers

	European market (HK\$'000) (Unaudited)	North America market (HK\$'000) (Unaudited)	Mainland China market (HK\$'000) (Unaudited)	Other overseas markets (HK\$'000) (Unaudited)	Total (HK\$'000) (Unaudited)
Six months ended 30 June 2020					
Segment revenue:					
Sales to external customers	1,013,413	1,270,889	1,230,303	203,490	3,718,095
Six months ended 30 June 2019					
Segment revenue:					
Sales to external customers	1,213,928	1,353,427	1,618,307	248,562	4,434,224

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

(b) *Non-current assets*

	2020 <i>(HK\$'000)</i> (Unaudited)	2019 <i>(HK\$'000)</i> (Audited)
Mainland China	4,005,850	4,164,959
North America	1,023,479	1,057,290
Europe	930,608	956,475
	5,959,937	6,178,724

The non-current asset information above is based on the locations of the assets excluding financial instruments and deferred tax assets.

Information about a major customer

During the six months ended 30 June 2020, revenue from sales to a major customer of third party accounting for 10% or more of the total net sales of the Group is HK\$407,948,000 (during the six months ended 30 June 2019: HK\$446,050,000).

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020 <i>(HK\$'000)</i> (Unaudited)	2019 <i>(HK\$'000)</i> (Unaudited)
<i>Revenue from contracts with customers:</i>		
Sales of goods	3,707,833	4,423,404
Rendering of testing services	10,262	10,820
	3,718,095	4,434,224

Revenue from contracts with customers

(i) Disaggregated revenue information

For the six months ended 30 June 2020

Segments	Strollers and accessories <i>HK\$'000</i> (Unaudited)	Car seats and accessories <i>HK\$'000</i> (Unaudited)	Non-durables <i>HK\$'000</i> (Unaudited)	Others <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Types of goods or services					
Sale of goods	1,250,308	1,223,860	695,871	537,794	3,707,833
Rendering of testing services	–	–	–	10,262	10,262
Total revenue from contracts with customers	<u>1,250,308</u>	<u>1,223,860</u>	<u>695,871</u>	<u>548,056</u>	<u>3,718,095</u>
Timing of revenue recognition					
Goods transferred at a point in time	1,250,308	1,223,860	695,871	537,794	3,707,833
Services transferred at a point in time	–	–	–	10,262	10,262
Total revenue from contracts with customers	<u>1,250,308</u>	<u>1,223,860</u>	<u>695,871</u>	<u>548,056</u>	<u>3,718,095</u>
Revenue from contracts with customers					
External customers	<u>1,250,308</u>	<u>1,223,860</u>	<u>695,871</u>	<u>548,056</u>	<u>3,718,095</u>

For the six months ended 30 June 2019

Segments	Strollers and accessories <i>HK\$'000</i> (Unaudited)	Car seats and accessories <i>HK\$'000</i> (Unaudited)	Non-durables <i>HK\$'000</i> (Unaudited)	Others <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Types of goods or services					
Sale of goods	1,433,230	1,503,019	839,647	647,508	4,423,404
Rendering of testing services	–	–	–	10,820	10,820
Total revenue from contracts with customers	<u>1,433,230</u>	<u>1,503,019</u>	<u>839,647</u>	<u>658,328</u>	<u>4,434,224</u>
Timing of revenue recognition					
Goods transferred at a point in time	1,433,230	1,503,019	839,647	647,508	4,423,404
Services transferred at a point in time	–	–	–	10,820	10,820
Total revenue from contracts with customers	<u>1,433,230</u>	<u>1,503,019</u>	<u>839,647</u>	<u>658,328</u>	<u>4,434,224</u>
Revenue from contracts with customers					
External customers	<u>1,433,230</u>	<u>1,503,019</u>	<u>839,647</u>	<u>658,328</u>	<u>4,434,224</u>

	Six months ended 30 June	
	2020 <i>(HK\$'000)</i> (Unaudited)	2019 <i>(HK\$'000)</i> (Unaudited)
<i>Other income and gains</i>		
Government grants (<i>note (a)</i>)	64,459	26,856
Rental concession income	3,453	–
Gain on wealth investment products (<i>note (b)</i>)	2,597	1,028
Net foreign exchange gain	2,557	–
Compensation income (<i>note (c)</i>)	2,090	2,767
Fair value gains, net		
– Cash flow hedges (transfer from equity)	292	178
– Derivative instruments – transactions not qualifying as hedges	884	–
– Financial assets at fair value through profit or loss	464	–
– Gains on call/put options over non-controlling interests	1,350	–
Others	<u>509</u>	<u>5,557</u>
Total	<u>78,655</u>	<u>36,386</u>

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.

5. FINANCE INCOME

	Six months ended 30 June	
	2020 <i>(HK\$'000)</i> (Unaudited)	2019 <i>(HK\$'000)</i> (Unaudited)
Interest income on bank deposits	<u>12,127</u>	<u>3,829</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2020 <i>(HK\$'000)</i> (Unaudited)	2019 <i>(HK\$'000)</i> (Unaudited)
Interest on bank loans, overdrafts and other loans	63,989	68,946
Interest on lease liabilities	<u>5,052</u>	<u>4,760</u>
	<u>69,041</u>	<u>73,706</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020 (HK\$'000) (Unaudited)	2019 (HK\$'000) (Unaudited)
Cost of inventories sold	2,167,648	2,514,615
Cost of services provided	4,632	4,508
Depreciation of property, plant and equipment	140,189	133,774
Depreciation of right-of-use assets	57,029	34,981
Amortisation of intangible assets	24,651	26,877
Research and development costs ("R&D")	146,802	163,564
Short-term rental expenses*	23,959	49,649
Auditors' remuneration	4,640	4,804
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	732,619	824,309
Share option expense	22,471	20,742
Pension scheme costs (defined benefit plans) (including administrative expense)	454	407
Pension scheme contributions	18,772	34,475
	<hr/>	<hr/>
	774,316	879,933
Net foreign exchange (gain)/losses	(2,557)	6,699
Fair value gains, net:		
– Cash flow hedges (transfer from equity)	(292)	(178)
– Derivative instruments – transactions not qualifying as hedges	(884)	–
– Financial assets at fair value through profit or loss	(464)	–
– Gains on call/put options over non-controlling interests	(1,350)	–
Provision /(reversal of) for impairment of receivables	1,279	(399)
(Reversal)/write-down of inventories	(4,701)	6,514
Product warranties and liabilities	33,778	14,924
Loss on disposal of items of property, plant and equipment	2,505	2,753
Bank interest income	(12,127)	(3,829)
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* Short-term rental expenses consist of lease payments of leases with lease term ends within 12 months of the date of initial application and property management fee on retail stores, storages and office premises.

8. INCOME TAX EXPENSE

The Company and its subsidiaries incorporated in the Cayman Islands, Samoa 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 period, 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%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

State income tax and federal income tax of the Group's subsidiaries in the United States have been provided for at rates of state income tax and federal income tax on the estimated assessable profits of the subsidiary during the period. The state income tax rates are from 5% to 9.99% in the respective states where the subsidiary operates, and the federal income tax rate is 21%.

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 income tax based on the taxable income at the rate of 15.83% and subject to business income tax base on the taxable income at rates ranging from 12.95% to 17%.

The Group's subsidiary registered in Denmark is 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") at the rate of 25% on the taxable income as reported in their PRC statutory accounts adjusted in accordance with the law of the PRC on Enterprise Income Tax (the "EIT Law").

Pursuant to relevant tax rules under the EIT Law and with the approval from the relevant tax authorities in the PRC, one of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC") is qualified as "High and New Technology Enterprises" and are entitled to a preferential tax rate of 15% from 2017 to 2019.

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

	Six months ended 30 June	
	2020	2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	(Unaudited)	(Unaudited)
Current income tax		
– Charge for the period	13,702	56,590
Deferred income tax	153	(15,739)
	<hr/>	<hr/>
Income tax expense reported in the statement of profit or loss	13,855	40,851
	<hr/>	<hr/>

9. DIVIDENDS

The board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period 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 six months ended 30 June 2020 (six months ended 30 June 2019: 1,668,023,166).

The calculation of diluted earnings per share amount is based on the profit for the period 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 period, 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 six months ended 30 June 2020.

The calculation of earnings per share is based on:

	Six months ended 30 June	
	2020	2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the earnings per share calculation	<u>54,138</u>	<u>135,760</u>
	Number of shares Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>1,668,023,166</u>	<u>1,668,023,166</u>
Effect of dilution-weighted average number of ordinary shares: Share options	<u>–</u>	<u>–</u>
Total	<u>1,668,023,166</u>	<u>1,668,023,166</u>

11. INVENTORIES

	As at 30 June 2020	As at 31 December 2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	(Unaudited)	(Audited)
Raw materials	255,534	330,609
Work in progress	39,638	47,840
Finished goods	<u>1,337,753</u>	<u>1,576,022</u>
	<u>1,632,925</u>	<u>1,954,471</u>

12. TRADE AND NOTES RECEIVABLES

	As at 30 June 2020 <i>(HK\$'000)</i> (Unaudited)	As at 31 December 2019 <i>(HK\$'000)</i> (Audited)
Trade receivables	1,045,363	1,100,028
Notes receivables	5,630	3,770
	1,050,993	1,103,798
Impairment for trade receivables	(29,140)	(28,164)
	1,021,853	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 minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

The Group's notes receivables are all aged within six months and are neither past due nor impaired.

An aging analysis of the trade receivables of the Group, based on the invoice date and net of provisions, is as follows:

	As at 30 June 2020 <i>(HK\$'000)</i> (Unaudited)	As at 31 December 2019 <i>(HK\$'000)</i> (Audited)
Within 3 months	945,106	1,003,174
3 to 6 months	35,468	45,694
6 months to 1 year	25,327	12,296
Over 1 year	10,322	10,700
	1,016,223	1,071,864

13. 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:

	As at 30 June 2020 (HK\$'000) (Unaudited)	As at 31 December 2019 (HK\$'000) (Audited)
Within 3 months	943,252	1,125,977
3 to 12 months	115,453	189,929
1 to 2 years	4,501	5,839
2 to 3 years	2,333	2,051
Over 3 years	2,196	566
	<u>1,067,735</u>	<u>1,324,362</u>

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.

14. INTEREST-BEARING BANK LOANS AND OTHER BORROWING

		As at 30 June 2020 HK\$'000 Maturity (Unaudited)	As at 31 December 2019 HK\$'000 Maturity (Audited)
Current			
Bank overdrafts – secured	<i>Note (a)</i>	2020 159,585	2020 293,351
Bank overdrafts – unsecured	<i>Note (a)</i>	2020 81	2020 3,020
Current portion of long-term bank loans – secured	<i>Note (b)</i>	2020-2021 850,406	2020 256,320
Bank borrowings – secured	<i>Note (b)</i>	2020-2021 499,676	2020 338,283
Promissory note	<i>Note (c)</i>	2020-2021 1,860	2020 1,246
Bank borrowings – unsecured		2020-2021 526,038	–
		<u>2,037,646</u>	<u>892,220</u>
Non-current			
Bank borrowings – secured	<i>Note (b)</i>	2021-2023 1,565,810	2021-2023 1,860,903
Promissory note	<i>Note (c)</i>	–	2021-2022 623
		<u>1,565,810</u>	<u>1,861,526</u>
Total		<u>3,603,456</u>	<u>2,753,746</u>

Note (a): The bank overdraft facilities amounted to HK\$378,381,650, of which HK\$159,666,279 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 30 June 2020, certain of the Group's bank loans are secured by:

- (i) Certain machinery amounting to HK\$12,882,000 (31 December 2019: HK\$17,346,000);
- (ii) A standby letter of credit from certain banks issued by a subsidiary of the Company;
- (iii) The guarantee from the Company and a subsidiary of the Company (31 December 2019: the guarantee from the Company).

Note (c): The promissory note was issued by the US government authority.

Note (d): The effective interest rates of the bank loans and other borrowing range from 1% to 6% (2019: 0.80% to 6%).

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020 (HK\$'000) (Unaudited)	As at 31 December 2019 (HK\$'000) (Audited)
Structured deposit	164,864	–

Financial assets at fair value through profit of loss represented the structured deposit placed with licensed financial institution in Hong Kong and its maturity date is due by 15 October 2020.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2020	
	Assets (HK\$'000) (Unaudited)	Liabilities (HK\$'000) (Unaudited)
Forward currency contracts – designated as hedging instruments	9,137	2,192
	As at 31 December 2019	
	Assets (HK\$'000) (Audited)	Liabilities (HK\$'000) (Audited)
Forward currency contracts – designated as hedging instruments	6,334	4,571

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The world is experiencing unprecedented challenges in 2020, in particular, the global outbreak of COVID-19 has imposed significant uncertainties in the global political and economic environments. In the Period, our Group remained steadfast in its commitment to its long-term strategy while concurrently executing aggressive, proactive reform initiatives. As a result, our Group withstood the related challenges and continues to remain robust operationally and profitable with strong cashflow, successfully turning the crisis into opportunities.

A reflection of our Group accomplishments during the Period include:

1. Our balanced global footprint minimized risk in any one territory and was a catalyst for a strong competitive advantage resulting in increased market share;
2. Our owned China and US based production and regional supply chain/operations teams functioned as the backbone of our operations during the pandemic period, with minimal or no supply interruptions;
3. Amidst the moderate, temporary revenue decline, proactive operating expense (“**OPEX**”) control across all regions facilitated profitability;
4. Aggressive working capital management (particularly inventory efficiency) generated positive cash flow;
5. Each Strategic brand and Blue Chip business recorded profitability for the Period and have respectively recorded positive revenue momentum beginning in June.

Our revenue and operating profit 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 outbreak and eventual 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 16.1% to approximately HK\$3,718.1 million from approximately HK\$4,434.2 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 13.1% decrease compared to the corresponding period in 2019. Our reported gross profit decreased by 19.3% to approximately HK\$1,545.8 million for the Period from approximately HK\$1,915.1 million for the corresponding period in 2019. Our reported operating profit decreased by 49.3% to approximately HK\$125.4 million from approximately HK\$247.2 million for the corresponding period in 2019 and on a non-GAAP basis, our operating profit decreased by 41.9% to approximately HK\$168.2 million for the Period from approximately HK\$289.7 million for the corresponding period in 2019.

During the Period, the Group's core Strategic brands recorded a decrease of 16.4% in revenue (13.3% 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 six months ended 30 June						
(HK\$ million)	2020		2019		Change (%)	Change on a constant currency basis (%)
Group Total Revenue	\$3,718.1		\$4,434.2		-16.1%	-13.1%
	Amount	% of Revenue	Amount	% of Revenue	Change (%)	Change on a constant currency basis (%)
Core Strategic Brands Revenue	\$3,044.2	81.9%	3,642.6	82.1%	-16.4%	-13.3%
Cybex	1,075.6	28.9%	1,238.7	27.9%	-13.2%	-10.0%
gb	1,132.3	30.5%	1,490.0	33.6%	-24.0%	-19.9%
Evenflo	836.3	22.5%	913.9	20.6%	-8.5%	-6.9%

EXECUTIVE SUMMARY

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

- Cybex** brand recorded a decrease in revenue of 13.2% (10.0% decrease on a constant currency basis) in the Period to approximately HK\$1,075.6 million from approximately HK\$1,238.7 million for the corresponding period in 2019. The overall revenue decline was directly attributed to economic shutdowns caused by the COVID-19 outbreak with an initial downturn experienced in APAC beginning in February through March and subsequently in EMEA and Americas during the last week of March, April and the first two weeks of May. Cybex recorded a strong global performance in January and very strong recovery beginning the second half of May and continuing through June as regional economies gradually began to reopen. 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 and the launch of new products. Cybex outperformed its direct competitors and continued to gain market share in all key geographic regions during the Period. Cybex will continue with aggressive product development and expansion of global distribution, further driving its future growth and reinforcing its leading position as the premium "technical – lifestyle" brand globally. 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.

- gb** brand recorded a decrease in revenue of 24.0% (19.9% decrease on a constant currency basis) in the Period to approximately HK\$1,132.3 million from approximately HK\$1,490.0 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 temporary closure of retail stores beginning in late January and resulted in the slow recovery of traffic after we reopened our own retail stores in late March/early April. During the Period, however, we continued to modernize and enhance gb's brand image and we executed our rapid business transformation toward a digital, cloud/social media based online platform, which drove growth in our online sales. To drive sustainable growth and to strengthen its leading position in the industry, gb continued to dedicate resources to product development and innovation in the Period in both durable and non-durable products.
- Evenflo** brand performance was stable in the first quarter of 2020 and then was inevitably negatively impacted as the United States economy recorded its worst economic GDP retraction on record during the second quarter of 2020. The peak negative revenue impact due to COVID-19 was realized in April, with sequential positive monthly growth momentum achieved through June. With revenue performance better than expected during the Period, Evenflo recorded a decrease in revenue of 8.5% (6.9% decrease on a constant currency basis) in the Period to approximately HK\$836.3 million from approximately HK\$913.9 million for the corresponding period in 2019. This rapid recovery in revenue performance is mainly due to strong consumer reception to recent new product introductions, overall growth in online channels and national retailer stores remaining substantially open during the COVID-19 period. We believe that this revenue performance during the Period resulted in market share increase.

During the Period, our Blue Chip business recorded a decrease of 9.9% (7.4% decrease on a constant currency basis) to approximately HK\$463.9 million in the Period as compared to approximately HK\$514.7 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 quarter revenue decrease of nearly 30%. Offsetting the first quarter revenue decrease is a strong and rapid recovery in the second quarter 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\$210.0 million as compared to approximately HK\$276.9 million in the corresponding period of 2019. This approximate 24.2% decrease (20.8% 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 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 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 see its global revenue performance return to strong growth across all key geographic regions and gain market share driven by its current product portfolio, new revolutionary product launches, new category extensions, introduction of Cybex brand flagship stores in key global cities, strengthened supply chain capabilities and expansion of national distribution platforms in new geographic territories. gb brand will continue its 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 upgrade our new generation retail store concepts working in concert with our cloud retail system to provide deeper engagement with both consumers and wholesalers. We will also expand our distribution and brand footprint, through franchising, into lower tier cities in China. Evenflo will continue to drive sustainable growth and market share 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 are closely monitoring all markets for any lingering impact due to a COVID-19 resurgence, and accordingly, we remain vigilant and continue to implement proactive measures to ensure the ongoing viability of the Group performance.

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.

FINANCIAL REVIEW

Revenue

For the Period, the total revenue of the Group decreased by 16.1% to approximately HK\$3,718.1 million from approximately HK\$4,434.2 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 13.1% decrease compared to the corresponding period in 2019.

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

(HK\$ million)	For the six months ended 30 June 2020		2019		Change (%)	Change on a constant currency basis (%)
	Revenue	% of revenue	Revenue	% of revenue		
Group's own brands and retailer private label businesses	3,254.2	87.5	3,919.5	88.4	-17.0%	-13.8%
– APAC	1,353.3	36.4	1,762.4	39.8	-23.2%	-19.1%
– EMEA	1,024.3	27.5	1,197.7	27.0	-14.5%	-11.6%
– Americas	876.6	23.6	959.4	21.6	-8.6%	-7.0%
Blue Chip business	463.9	12.5	514.7	11.6	-9.9%	-7.4%
Total	<u>3,718.1</u>	<u>100.0</u>	<u>4,434.2</u>	<u>100.0</u>	<u>-16.1%</u>	<u>-13.1%</u>

The 17.0% decline (13.8% decline on a constant currency basis) of the Group's own brands and retailer private label businesses was attributable to widespread adverse impact caused by 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\$1,230.3 million in the Period against HK\$1,618.3 million in the corresponding period in 2019, a decrease of 24.0% (a decrease of 19.7% on a constant currency basis). The decrease in revenue was directly attributable to impact from COVID-19 on our offline retail and wholesale channels beginning in late January in China. The revenue from markets outside China decreased to HK\$123.0 million in the Period from approximately HK\$144.1 million in the corresponding period of 2019, which was mainly due to the decrease in revenue from our toy segment brand Rollplay due to its product portfolio optimization.
- In region EMEA, we recorded revenue of approximately HK\$1,024.3 million in the Period, a decrease of 14.5% (11.6% decrease on a constant currency basis) from approximately HK\$1,197.7 million in the corresponding period in 2019. The decline in region EMEA mainly attributable to store closures caused by the COVID-19 outbreak in Europe impacted our core Strategic brands Cybex and gb during the last week of March, April and the first two weeks of May.

- In region Americas, we recorded revenue of approximately HK\$876.6 million in the Period, a decrease of 8.6% (7.0% decrease on a constant currency basis) from approximately HK\$959.4 million for the corresponding period in 2019. The decrease was mainly attributable to the decrease of our core Strategic brands Evenflo, Cybex and gb, which were impacted by COVID-19 in April and May.

During the Period, our Blue Chip business recorded a decrease of 9.9% (7.4% decrease on a constant currency basis) to approximately HK\$463.9 million in the Period as compared to approximately HK\$514.7 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 quarter revenue decrease of nearly 30%. Offsetting the first quarter revenue decrease is a strong and rapid recovery in the second quarter 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 13.8% to approximately HK\$2,172.3 million for the Period from approximately HK\$2,519.1 million for the corresponding period in 2019. Gross profit for the Group decreased to approximately HK\$1,545.8 million for the Period from approximately HK\$1,915.1 million for the corresponding period in 2019, and gross profit margin decreased to approximately 41.6% for the Period from approximately 43.2% for the corresponding period in 2019. The reduction in gross profit margin was mainly attributed to COVID-19 impact resulting in lower revenue, temporary unfavorable brand mix and consumers shifting towards online channels in China.

Other Income and Gains

Other income and gains of the Group increased by approximately HK\$42.3 million to approximately HK\$78.7 million for the Period, from approximately HK\$36.4 million for the corresponding period in 2019. The increase was mainly attributable to the increase in government grants.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of marketing expenses, salaries and transportation costs. The selling and distribution costs approximated HK\$945.8 million for the Period, decreasing from approximately HK\$1,141.6 million for the corresponding period in 2019. The decrease was mainly attributable to:

- a) an approximately 25.2% decrease in marketing expenses to approximately HK\$180.1 million for the Period from approximately HK\$240.9 million for the corresponding period in 2019;
- b) the decrease in warehousing and transportation costs to approximately HK\$191.3 million for the Period from approximately HK\$232.4 million for the corresponding period in 2019, in line with the decline in revenue;

- c) decreased costs in personnel of approximately HK\$278.8 million for the Period, compared to approximately HK\$308.7 million in the corresponding period in 2019; and
- d) an approximately 33.7% decrease in online and offline store expense of approximately HK\$96.3 million for the Period, compared to approximately HK\$145.3 million for the corresponding period in 2019.

Administrative Expenses

The Group's administrative expenses primarily consist of salaries, R&D costs, professional service expenses, provision for the impairment of receivables and other office expenses. The administrative expenses decreased to approximately HK\$539.1 million for the Period from approximately HK\$550.5 million for the corresponding period in 2019. The decrease was mainly due to:

- a) the decrease in the R&D cost to approximately HK\$146.8 million for the Period from approximately HK\$163.6 million for the corresponding period in 2019, due to delays impacted by COVID-19;
- b) personnel costs decreased to approximately HK\$202.4 million for the Period from approximately HK\$212.3 million for the corresponding period in 2019, which was mainly attributable to savings in ongoing personnel costs, partially offset by severance and other related costs incurred to optimize the organization structure during the Period;
- c) stable in other administrative expenses.

Other Expenses

Other expenses of the Group increased to approximately HK\$14.2 million for the Period from approximately HK\$12.2 million for the corresponding period in 2019. Other expenses mainly consist of loss on disposal of property, plant and equipment and other losses.

Operating Profit

As a result of the foregoing, the Group's operating profit decreased by approximately 49.3%, or HK\$121.8 million, to approximately HK\$125.4 million for the Period from approximately HK\$247.2 million for the corresponding period in 2019.

Finance Income

For the Period, the Group's finance income increased by approximately HK\$8.3 million to approximately HK\$12.1 million for the Period from approximately HK\$3.8 million for the corresponding period of 2019. The Group's finance income mainly comprises interest income from bank deposits.

Finance Costs

For the Period, the Group's finance costs decreased by approximately HK\$4.7 million, or 6.4%, to approximately HK\$69.0 million for the Period from approximately HK\$73.7 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 decreased by 61.5% to approximately HK\$68.2 million for the Period from approximately HK\$177.1 million for the corresponding period in 2019.

Income Tax

The Group's income tax expense was approximately HK\$13.9 million for the Period, decreased by approximately HK\$26.9 million from approximately HK\$40.8 million for the corresponding period in 2019. The decrease in income tax expense was aligned with the decrease of the profit before tax of the Group.

Profit for the Period

Net profit of the Group decreased by 60.2% to approximately HK\$54.3 million for the Period from approximately HK\$136.3 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 period and non-GAAP net margin, are presented. The Company's management believes that the non-GAAP financial measures provide investors with a more meaningful 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 non-cash items, certain impact of merger and acquisition transactions and certain one-off bad debt provision and operating loss. Nevertheless, the use of these non-GAAP financial measures has limitations as an analytical tool. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with IFRS. In addition, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the six months ended 30 June 2020 and 2019 to the nearest measures prepared in accordance with IFRS:

For the six months ended 30 June 2020				
	Adjustments			
	As reported (HK\$ million)	Equity-settled share option arrangements (HK\$ million)	Amortisation of intangible assets and inventory appreciation (a) (HK\$ million)	Non-GAAP (HK\$ million)
Operating profit	125.4	22.5	20.3	168.2
Profit before tax	68.2	22.5	20.3	111.0
Profit for the period	54.3	22.5	15.2	92.0
Operating margin	3.4%			4.5%
Net margin	1.5%			2.5%

For the six months ended 30 June 2019				
	Adjustments			
	As reported (HK\$ million)	Equity-settled share option arrangements (HK\$ million)	Amortisation of intangible assets and inventory appreciation (a) (HK\$ million)	Non-GAAP (HK\$ million)
Operating profit	247.2	20.8	21.7	289.7
Profit before tax	177.1	20.8	21.7	219.6
Profit for the period	136.3	20.8	16.2	173.3
Operating margin	5.6%			6.5%
Net margin	3.1%			3.9%

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

Working Capital and Financial Resources

	As at 30 June 2020	As at 31 December 2019
	<i>(HK\$ million)</i>	
Trade and notes receivables (including trade receivables due from related parties)	1,025.8	1,087.2
Trade and notes payables (including trade payables due to a related party)	1,069.3	1,324.4
Inventories	1,632.9	1,954.5
	For the six months ended 30 June 2020	For the year ended 31 December 2019
	<i>(HK\$ million)</i>	
Trade and notes receivables turnover days ⁽¹⁾	51	45
Trade and notes payables turnover days ⁽²⁾	99	100
Inventories turnover days ⁽³⁾	149	140

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

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

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

The decrease of trade and note receivables was mainly attributable to the decline of revenue. The increase of trade and notes receivables turnover days was a combined result of the decline of revenue during the Period and the comparatively high performance from business recovery near the end of the Period.

The decrease of trade and note payables was mainly attributable to less procurement near the end of the Period compared to the period near 2019 year end. The trade and notes payables turnover days remained stable.

The decrease of inventories was mainly attributable to less procurement near the end of the Period compared to the period near 2019 year end and the improvement on existing inventory level. The increase of inventory turnover days was a combined result of the decline of cost of sales during the Period and the comparatively high inventory level at the end of the Period due to business recovery.

Liquidity and Financial Resources

As at 30 June 2020, the Group's monetary assets, including cash and cash equivalents, pledged bank deposits and financial assets at fair value through profit or loss were approximately HK\$2,074.9 million (31 December 2019: approximately HK\$1,078.6 million).

As at 30 June 2020, the Group's interest-bearing bank loans and other borrowings were approximately HK\$3,603.4 million (31 December 2019: approximately HK\$2,753.7 million), including short-term bank loans and other borrowings of approximately HK\$2,037.6 million (31 December 2019: approximately HK\$892.2 million) and long-term bank loans and other borrowings with repayment terms of three years of approximately HK\$1,565.8 million (31 December 2019: approximately HK\$1,861.5 million).

As a result, as at 30 June 2020, the Group's net debt position was approximately HK\$1,528.5 million (31 December 2019: approximately HK\$1,675.1 million).

Contingent Liabilities

As at 30 June 2020, the Group had no material contingent liabilities (as at 31 December 2019: nil).

Exchange Rate Fluctuations

The Group is a multinational enterprise with operations in different countries and the money that it uses to conduct its business and transactions is denominated in various currencies, and the Group uses 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 operating expenses 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 operating expenses. 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 substantially eliminate the foreign currency exposures.

Pledge of Assets

As at 30 June 2020, bank deposits of approximately HK\$25.6 million (31 December 2019: HK\$24.0 million) were pledged for business operation. Certain machinery amounting to approximately HK\$12.9 million (31 December 2019: HK\$17.3 million) was pledged to secure bank loan granted to the Group.

Gearing Ratio

As at 30 June 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 notes payables, other payables, advances from customers and accruals, lease liabilities and interest-bearing bank loans and other borrowings (current and non-current) less cash and cash equivalents; the amount of the adjusted capital is calculated by equity attributable to owners of the parent less hedging reserve) was approximately 41.2% (as at 31 December 2019: approximately 43.2%), or 42.7% after taking into consideration the impact of IFRS 16 (as at 31 December 2019: approximately 44.8%).

Employees and Remuneration Policy

As at 30 June 2020, the Group had a total of 9,670 full-time employees (31 December 2019: 11,180). For the Period, costs of employees, excluding directors' emoluments, amounted to a total of approximately HK\$761.4 million (for the corresponding period of 2019: approximately HK\$865.3 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale. The Group provides its employees in the PRC and other countries and regions with welfare schemes as required by applicable local laws and regulations.

On 5 November 2010, the Company adopted a share option scheme to award employees who may have an impactful contribution to the Group (the “**2010 Share Option Scheme**”). As the 2010 Share Option Scheme will expire 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 “**Share Option Scheme**”) at its annual general meeting held on 25 May 2020. A summary of the principal terms of the Share Option Scheme is set out in Appendix III of the Company's circular dated 22 April 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 Share Option Scheme adopted by the shareholders of the Company on 25 May 2020. For further details, please refer to the announcement of the Company dated 19 June 2020.

As at 31 December 2019, the outstanding share options were 211,280,000. 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 Share Option Scheme. Save as disclosed above, during the Period, 3,933,333 share options had lapsed, 96,650,000 share options had been cancelled and 0 share options had been exercised under the 2010 Share Options Scheme. As at 30 June 2020, 136,781,167 share options were outstanding.

Significant Acquisition, Disposal or Investment

During the Period, the Group did not have any material acquisition or disposals of subsidiaries and associated companies, and investment.

OTHER INFORMATION

Events After the 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 travel restrictions and other precautionary measures imposed by relevant local authorities that resulted in delays in commencement for work production in manufacturing plants, temporary closure for business of suppliers and distributors, and the overall decline in market demand from retail sector.

The Group estimates that the degree of COVID-19 impact will be dependent on the duration of the 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 a series of action plans to minimize such impacts, including proactive OPEX 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 overall financial impact, which will be reflected in the Group's 2020 annual financial statements, could not be reasonably estimated at this stage.

Purchase, Sales or Redemption of Shares

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Dividends

The Board does not recommend payment of any dividend for the Period (six months ended 30 June 2019: Nil).

Corporate Governance

The Board has committed to achieving high corporate governance standards. The Board 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 Company has applied the principles set out in the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and has also put in place certain recommended best practices as set out in the CG Code. The Board is of the opinion that the Company has complied with all the code provisions set out in the CG Code throughout the Period.

Model Code for Securities Transactions by Directors

Since the listing of the Company on the Main Board of the Stock Exchange on 24 November 2010, the Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code for the dealings in securities transactions by the Directors. Having been made specific enquiries by of the Company, all Directors of the Company have confirmed that they complied with the required standard of dealings set out in the Model Code throughout the Period.

Audit Committee

As at the date of this announcement, the audit committee of the Company (the “**Audit Committee**”) consists of Mr. Iain Ferguson Bruce, Mr. Shi Xiaoguang and Ms. Chiang Yun. The chairman of the Audit Committee is Mr. Iain Ferguson Bruce. The unaudited interim condensed consolidated financial statements of the Group for the Period have been reviewed by the Audit Committee.

The unaudited interim results for the Period have been reviewed by the Company’s auditors, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

Publication of Interim Report

This interim results announcement is published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.gbinternational.com.hk>). The interim report of the Company for the Period containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and made available for review on the same websites in due course.

By Order of the Board
Goodbaby International Holdings Limited
Song Zhenghuan
Chairman

Hong Kong, 25 August 2020

As at the date of this announcement, the executive Directors of the Company are Mr. SONG Zhenghuan, Mr. Martin POS, Mr. XIA Xinyue, Mr. LIU Tongyou and Mr. Michael Nan QU; the non-executive Directors are Ms. FU Jingqiu and Mr. HO Kwok Yin, Eric; and the independent non-executive Directors are Mr. Iain Ferguson BRUCE, Mr. SHI Xiaoguang, Ms. CHIANG Yun and Mr. JIN Peng.