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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)

RENEWAL OF CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 28 August 2018 in relation to, among others, the 2018 Supply Agreement. The 2018 Supply Agreement will expire on 31 December 2021. On 23 August 2021, the Company and GCHL entered into the 2021 Supply Agreement to renew the 2018 Supply Agreement.

As all the applicable percentage ratios (other than the profits ratio) of the 2021 Supply Agreement, are over 0.1% but less than 5%, the 2021 Supply Agreement is subject to the reporting, annual review and announcement requirements and exempt from the requirement of independent Shareholders' approval pursuant to Chapter 14A of the Listing Rules.

THE 2021 SUPPLY AGREEMENT

Reference is made to the announcement of the Company dated 28 August 2018 in relation to, among others, the 2018 Supply Agreement. The 2018 Supply Agreement will expire on 31 December 2021.

On 23 August 2021, the Company and GCHL entered into the 2021 Supply Agreement to renew the 2018 Supply Agreement. The principal terms of the 2021 Supply Agreement are set out below.

Subject matter : The Company agreed to supply, or procure its subsidiaries to supply, the MBC Products to GCHL and its subsidiaries as non-exclusive distributors to distribute the MBC Products domestically in the PRC.

Term : Commencing from 1 January 2022 to 31 December 2024 (both days inclusive).

Price and pricing policy : 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 2021 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 under the following principles:

- (i) *Pre-determine a benchmark retail price for each MBC Product*

To pre-determine a benchmark retail price for the relevant MBC Product, the Company will make reference to (a) the prevailing market prices of the products similar to the relevant MBC Product; and (b) its costs of the production of the relevant MBC Product plus mark-up rate specific to the relevant MBC Product.

For a new product or an existing product with new and enhanced features, the Company will refer to the prevailing market prices by conducting market research in the manner as mentioned above prior to the launch of such product.

In addition, for an existing product with new and enhanced features, the Company will also refer to the historical price charged by the Group before the new and enhanced features are introduced and take into account of indicative range of additional price which may be acceptable to end-users obtained through market research conducted by the Group in the manner as mentioned above prior to the launch of such product. For an existing product with no new and enhanced features, the Company will refer to the average retail price of products similar to the relevant MBC Products offered by other competing brands. The Company will obtain prices offered by at least two other competing brands for comparison purpose.

After identifying the prevailing market prices of the products similar to the relevant MBC Product, the Group will also make reference to the costs of the production of the relevant MBC Product and mark-up rate specific to the relevant MBC Product.

The mark-up rate applicable to the relevant MBC Product may vary under the 2021 Supply Agreement. The Company will consider the following factors in determining the mark-up rate to be applied to the relevant MBC Product: (a) the brand of the relevant MBC Product; (b) the product type and, in particular, whether the product consists of any innovative feature; (c) the market positioning of the product as to whether the relevant MBC Product is targeted at high-end or low-end market users; and (d) the distribution networks and the incidental logistic arrangement for the product. As an indication, a higher mark-up rate will generally be considered for a product with a well-established brand name targeted at a high-end market and/or with innovative feature, while a lower mark-up rate will be considered for hypermarket as compared with shopping mall. The mark-up rate will be determined by the Company with respect to each product based on the above factors and in the manner as described above.

(ii) Determine the discount rate

Upon the determination of a benchmark retail price, the Company will apply the applicable discount rate to it. The Company will consider the following factors before determining the discount rate to be applied: (a) the profile of each individual customer including the coverage of the distribution network and the market position of each individual customer; (b) the type as well as the quantity of products ordered by such individual customer; and (c) the track record of the corporation between such individual customer and the Group. As an indication, depending on the type of products ordered, a higher discount rate will generally be considered for a long-term customer with a broad distribution network and a high quantity of orders. The discount rate will be determined by the Company based on the above factors and in the manner as described above.

Once a benchmark retail price and the discount rate applicable to an individual customer and the specific product are confirmed, the Group will set the final purchase price.

(iii) 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

For products to be sold to GCHL and its subsidiaries, as connected persons of the Group, the Group will also ensure that the terms offered to it will not be more favourable than those offered by the Group to independent third parties.

The pricing principles above apply to all the customers of the Group, including GCHL and its subsidiaries.

Accordingly, the Board is of the view that the terms of the 2021 Supply Agreement offered by the Group to its connected persons are no more favorable than those offered by the Group to independent third parties.

Annual Caps : The annual caps for the three years ending 31 December 2024 are set out below:

	Year ending 31 December 2022	Year ending 31 December 2023	Year ending 31 December 2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual cap	20,000	26,000	34,000

The annual caps were determined with reference to:

- (i) the historical transaction amount under the 2018 Supply Agreement;
- (ii) the expected recovery of the overall offline retail business in the PRC from the impact of COVID-19;
- (iii) the new law which became effective on 1 June 2021, making child safety seat installation mandatory in China for underaged children; and
- (iv) a decision, dated on 26 June 2021, made by the Central Committee of the Communist Party of China and the a State Council to allow couples to have three children and draw up supporting measures to encourage births.

The historical annual caps and actual transaction amount under the 2018 Supply Agreement are set out below:

	Year ended 31 December 2019	Year ended 31 December 2020	Year ending 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual cap	45,100	63,400	89,600
Actual transaction amount	26,195	10,187	4,887 for the six months ended 30 June 2021

As at the date of this announcement, the annual caps under the 2018 Supply Agreement have not been exceeded.

REASONS AND BENEFITS OF ENTERING INTO THE 2021 SUPPLY AGREEMENT

The 2021 Supply Agreement was entered into taking into account of the expiry of the 2018 Supply Agreement.

Since 2013, the Group has been supplying durable juvenile products to GCHL and its subsidiaries for domestic sales. In 2018, as a result of the Acquisition, the Group's portfolio increased from durable juvenile products to cover a wide range of non-durable juvenile products. The product range under the 2018 Supply Agreement expanded to cover both durable and non-durable juvenile products.

Upon the entering of the 2021 Supply Agreement, the Group's relationship with GCHL will be maintained and the Group can continue to take advantage of GCHL's retained retail channels, including Mothercare brand retail channel, a high-end retailer worldwide, and gb Kids Station retail channel, a leading sport footwear retailer in the PRC, covering both durable juvenile products and non-durable juvenile products.

The 2021 Supply Agreement was entered into after arm's length negotiation. The Directors (including the independent non-executive Directors excluding the Chairman, Ms. Fu Jingqiu, Mr. Liu Tongyou and Mr. Michael Nan Qu) consider that the terms of the 2021 Supply Agreement (including the annual caps) are fair and reasonable so far as the Shareholders are concerned and are in the interest of the Shareholders as a whole.

INTERNAL CONTROL

The pricing policy for all the continuing connected transactions of the Group are supervised and monitored by the relevant personnel and management of the Group in charge to ensure the relevant continuing connected transaction is conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its Shareholders as a whole.

The relevant personnel and management of the Group will conduct regular checks to review and assess whether the transactions contemplated under the relevant continuing connected transaction are conducted in accordance with the terms of its respective agreement, monitor the transaction amounts and report to the senior management monthly and to the board semi-annually on the utilization of the relevant annual cap and will also regularly update the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy.

The independent non-executive Directors would continue to review the transactions contemplated under the relevant continuing connected transaction and its auditors would also conduct an annual review on the pricing terms and annual caps thereof.

Accordingly, the Directors consider that the internal control mechanism is effective to ensure that the transactions contemplated under the relevant continuing connected transaction have been and will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

(1) The Group

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

(2) GCHL

GCHL and its subsidiaries are principally engaged in the retail and distribution of juvenile products including both durable and non-durable juvenile products and household appliances.

As at the date of the announcement, GCHL is held as to 28.08% by Pacific United Developments Limited (“**PUD**”), 26.01% by Cayey Enterprises Limited (“**CAEL**”), 16.37% by Rosy Phoenix Limited (“**ROSL**”), 5.42% by Silvermount Limited (“**SIML**”), and 24.12% by Sure Growth Investments Limited (“**SGIL**”). PUD is held as to 53.13% directly by CAEL and 12.46% indirectly by the nephew of the Chairman. CAEL is indirectly held by a trustee on trust for the beneficiaries of a family trust that include the Chairman, Ms. Fu Jingqiu, and their family members. ROSL is indirectly held by a trustee of a family trust in which Ms. Fu Jingqiu is the settlor of the trust and the beneficiaries of the trust include Ms. Fu Jingqiu. SIML is wholly owned by Mr. Liu Tongyou. SGIL is held as to 44.44% by the Chairman, as to 22.22% by Ms. Fu Jingqiu, as to 16.67% by the nephew of the Chairman, as to 11.11% by Mr. Liu and as to 5.56% by Mr. Michael Nan Qu.

GCHL is an associate of each the Chairman and Ms. Fu Jingqiu and hence a connected person of the Company.

Each of the Chairman, Ms. Fu Jingqiu, Mr. Liu Tongyou and Mr. Michael Nan Qu is considered to be interested in the transactions contemplated under the 2021 Supply Agreement and has abstained from voting for the resolution at the board meeting to approve the 2021 Supply Agreement and the relevant annual caps.

LISTING RULES IMPLICATIONS

As all the applicable percentage ratios (other than the profits ratio) of the 2021 Supply Agreement, are over 0.1% but less than 5%, the 2021 Supply Agreement are subject to the reporting, annual review and announcement requirements and exempt from the requirement of independent Shareholders’ approval pursuant to Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set opposite them below:

“%”	per cent.
“2018 Supply Agreement”	the agreement dated 28 August 2018 entered into between the Company and GCHL in relation to the supply of MBC Products
“2021 Supply Agreement”	the agreement dated 23 August 2021 entered into between the Company and GCHL in relation to the supply of MBC Products
“Acquisition”	the acquisition of Oasis Dragon Limited and its subsidiaries by the Company, details of which are set out in the circular of the Company 4 September 2017
“Board”	the board of the Directors
“Chairman”	Mr. Song Zhenghuan, the chairman of the Group and an executive Director
“Company”	Goodbaby International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“GCHL”	好孩子中國控股有限公司 (Goodbaby China Holdings Limited), a company established in Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“MBC Product(s)”	including (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
“PRC”	the People’s Republic of China
“PUD”	Pacific United Developments Limited, a company incorporated in the British Virgin Islands with limited liability
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Shares”	ordinary shares of nominal value HK\$0.01 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules

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

Hong Kong, 23 August 2021

As at the date of this announcement, the executive Directors 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.