Goodbaby International

2021
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
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3, Building D
P.O. Box 1586, Gardenia Court
Camana Bay, Grand Cayman, KY1-1100
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE

28 East Lufeng Road, Lujia Town
Kunshan City
Jiangsu Province, 215331
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2502, 25/F.
Tung Chiu Commercial Centre
193 Lockhart Road
Wan Chai
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
cybex
SIMPLY
LOWERS

Chairman's Statement

CHAIRMAN'S STATEMENT

Dear shareholders and investment analysts,

For the year, the Group ("Goodbaby International Holdings Limited, together with its subsidiaries") achieved historic record revenue and increased its market share in the face of an unprecedentedly difficult environment as global recovery in 2021 was hindered due to intermittent outbreaks of the pandemic. These exacerbated economic instability, affected consumer confidence in travel and consumption, and disrupted global logistics. The result was a dramatic rise in the relevant costs of the Group, bringing challenges to the Group's business development and its profitability. Amidst these disruptions, the Group utilized its strengths and industry-leading advantages to implement transformations that enabled it to achieve positive financial performance. Overall, a solid foundation for further high-quality development in the future was laid in the year.

The Group recorded revenue of approximately HK$9,692.1 million for 2021, representing an increase of 16.7% (a 13.1% increase on a constant currency basis) from approximately HK$8,305.0 million in 2020. Global logistics challenges put pressure on the Group's profitability, and its gross profit margin and operating profit margin both decreased by comparison with 2020. However, the Group's core strategic brands continued to gain market recognition and increase their brand value. The Group was able to further consolidate its leading position in the industry by virtue of its powerful business model, which integrates products, distribution, research and development ("R&D"), production, supply and service.

CYBEX achieved new highs in the year. It recorded revenue of approximately HK$3,384.5 million, representing year-on-year growth of 27.4% (a 24.8% increase on a constant currency basis), and continued to greatly increase its market share. CYBEX enjoys the benefits of a wide range of fully-developed products, channels and brands, and has continued to strengthen its capacity in innovation and R&D. During the year, CYBEX launched more than 80 innovative products, including the world's first integrated full body airbag car seat "Anoris", utilizing disruptive technology which is redefining safety standards for children's car travel. Six CYBEX products including car seats and wheeled goods received five Red Dot Design Awards and two times best in class from the prestigious German independent consumer testing organization Stiftung Warentest, in recognition of the brand's industry-leading strengths in product development and innovation. CYBEX has continued to expand its global distribution network and its own e-commerce platform to reach customers via omni-channels. Through co-branding, social media marketing and marketing cooperation with Internet celebrities, CYBEX continued to reinforce its brand strength and improve its brand positioning. During the year, CYBEX's major market of Europe experienced longer pandemic-related lockdowns than in the same period last year. Although this, combined with global logistics supply chain disruptions, seriously affected CYBEX, the brand nevertheless delivered another record performance. The excellent results reflect CYBEX's solid operational management system, its strong adaptability, and its great development potential.

gb brand recorded a year-on-year decrease in sales revenue of 7.0% (a 12.9% decrease on a constant currency basis), to approximately HK$2,298.6 million for the year. In its China market, the gb brand business recorded a year-on-year decrease of 5.8%, or a 12.0% decrease on a constant currency basis. gb brand was affected by initiatives in the year designed to optimize our wholesale distribution channels and selective closure and opening of our self-owned retail stores to maximize store performance. At the same time, the ongoing decline in the number of children being born in China adversely affected the Group's performance, while intermittent outbreaks of the pandemic also dragged down the brand's offline performance. gb's management team has always put consumer needs first, and focused on the all-round integrated development of products, brand, channels, and consumer relationships. During the year, gb accelerated its product upgrades. Examples include the new generation of the Pockit stroller and the foldable car seat, which received two Red Dot Design Awards (紅點設計獎), one iF Design Award (iF設計獎) and one G-Mark Best 100 Design Award (G-Mark最佳100設計獎). Built on its 33-year brand history, gb reshaped its brand image to further capture the attention of younger consumers. In terms of channel reforms, gb expanded its e-commerce model and strengthened to "retailize" operation with enhanced content marketing; meanwhile, it continued to upgrade its offline channels by opening new generation retail flagship stores, which offer a new pattern of shopping and an immersive experience, and have delivered positive performances. The brand deepened its digital transformation with improved digital infrastructure, which optimized management efficiency. gb has restructured its operation and management organization, which helped build new core capabilities and creating a new model for high-quality development. The Group is confident in gb's future potential.

Evenflo entered its second century with a new brand image, overcoming earlier challenges and achieving strong growth momentum. Evenflo recorded a significant year-on-year revenue increase of 18.9% (a 17.6% increase on a constant currency basis) with revenue of approximately HK$1,982.6 million, representing a record high and a further increase in its market share. New Evenflo products launches have been successful and been strongly recognized by the market. Among them, the Revolve 360 Rotational All-In-One car seat was strongly received by consumers due to its disruption innovation and was hailed as a turning-point in family travel safety solutions. The product was ranking among the top ten best-selling products in the US juvenile market and named “Best In Show (展會最佳產品獎)” at the Juvenile Products Manufacturers Association (JPMA) Innovation Awards in 2021 a few months after its launch. This has further enhanced Evenflo’s brand image. During the year, Evenflo’s revenue growth was tempered by global supply chain, logistics and external cost factors, and its profitability came under some short-term pressure. However, the brand’s new management team took a series of measures that delivered positive results, and the Group is confident about the brand’s future.

The Group’s Blue Chip business recorded dramatic growth. By leveraging its industry-leading One-Dragon model integrating resources of distribution, R&D, production, service and supply, the Group was able to continue providing customers with excellent levels of service, manufacturing, quality management, on-time delivery and new product development. The Blue Chip business efficiently met their needs throughout the year, and long-term cooperation was strengthened. The Group maintains stable relationship with its Blue Chip customers and will continue to pursue sustainable business growth in this area.

The Group has always stood at the forefront of innovation in its industry. In 2021, it successfully applied new materials, new technologies and new processes to the development of a batch of smart products designed to support consumer needs in the digital age. During the year, the Group applied for 531 new patents, bringing the total number of patents it has applied for to 11,765. It also won a total of seven Red Dot Design Awards, one iF Design Award, one G-Mark Best 100 Design Award, bringing the total number of world-level industrial design awards it received to 49.

The Group’s leadership in global standard-setting has continued to rise to new levels. During the year, the Group was a rotating chairman with the French National Standards Committee of the ISO/TC 310 Children’s Products Technical Committee, working with global experts to formulate international standards for various types of children’s products. The Group’s laboratory was recognized by the Ministry of Industry and Information Technology of China as a “Quality Control and Technology Assessment Laboratory for Industrial Products”, the only such laboratory in the industry. Further, the Group’s self-developed digital consumer experience testing platform filled the gap in domestic and foreign standards and testing resources. During the year, the Group participated in the formulation or revision of 17 domestic and foreign standards, bringing to 237 the number of standards that it has been involved in formulating or revising to date.

The Group’s advanced manufacturing achievements have also reached new heights. In particular, much progress has been made in various digital transformation initiatives, with the Group continuing to build unmanned workshops and smart factories. The Group has made breakthroughs in agility, improving quality, reducing costs, shortening lead times and optimizing inventory.

The world economy has entered a new cycle amid major global changes; opportunities and challenges co-exist. Whatever difficulties may lie ahead, the Group is confident that it can overcome them by leveraging its corporate culture of innovation and inclusiveness. It will forge ahead to overcome challenges while firmly implementing its proven strategies, all along working hard and advancing further, with the goal of creating greater value for shareholders, employees, and society as a whole.

We look forward to your ongoing support.

Thank you!

Song Zhenghuan
Chairman
22 March 2022


POCKIT
口袋车
ORSA
SPORT

Management Discussion & Analysis

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

HISTORIC RECORD REVENUE AMIDST CHALLENGING COVID-19 RELATED DISRUPTIONS

Throughout the year ended 31 December 2021 (the "Period"), the world continued to be profoundly impacted by lingering impacts from COVID-19 related disruptions. Continued sporadic regional shutdowns, significant shortage of global ocean and inland transportation capacities, dramatic increases in costs of ocean and inland transportation, substantial increases of raw material input costs, weak foreign exchange rates, especially EUR and US$ against RMB, and the continuously decreasing birth rate in China not only tempered the Group's positive revenue growth momentum, but heavily impacted the Group's overall profitability and operational efficiencies.

Amidst these challenges, the Group took advantage of the chaotic environment and made effective use of its own distribution platforms in key markets, combined with continued extension of its own international wholesale distribution and B2C online retail platforms in key markets resulting in market share gains.

This was a result of leveraging the strength of the Group's vertically integrated "One-Dragon" platform of own brands, omni-channel distribution platforms, own manufacturing and operational services of the Group.

Key highlights of our Group's performance during the Period:

1. Historic record revenue during extremely challenging global COVID-19 disruptions and achieving market share gains;

2. Sustained remediation actions taken including product price increases, production-side efficiency improvement, and hedging arrangements of foreign exchange rate to partially offset headwinds in profitability;

3. Successful optimization of loan structure achieved significant saving in the Group's net finance cost during turbulent market conditions and further reinforced our stable liquidity position;

4. Took advantage of the global disruptions by the continued expansion of international omni-channel distribution platforms (wholesale and online retail);

5. Several ground-breaking product innovations drove growth in the Period and will guarantee sustained future growth;

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

7. Own production and regional supply chain/operations teams functioned as the backbone of our operations during the pandemic period, with minimal or no supply interruptions which fueled our revenue growth.

Our revenue for the Period increased by 16.7% to approximately HK$9,692.1 million from approximately HK$8,305.0 million for the corresponding period in 2020. 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% increase compared to the corresponding period in 2020. Our reported gross profit increased by 8.9% to approximately HK$3,995.2 million for the Period from approximately HK$3,668.1 million for the corresponding period in 2020. Our reported operating profit decreased by 61.4% to approximately HK$166.0 million from approximately HK$430.0 million for the corresponding period in 2020 and our reported net profit decreased by 50.5% to approximately HK$127.6 million for the Period from approximately HK$257.9 million for the corresponding period in 2020. Additionally, on a non-GAAP basis, our operating profit decreased by 58.3% to approximately HK$240.6 million for the Period from approximately HK$576.3 million for the corresponding period in 2020 and our net profit decreased by 49.7% to approximately HK$192.4 million for the Period from approximately HK$382.4 million for the corresponding period in 2020.

During the Period, the Group's core Strategic brands recorded an increase of 12.8% in revenue (a 9.3% increase on a constant currency basis) from the revenue of the corresponding period in 2020.

Summary of the Group's core Strategic brands revenue:

(HK$ million)	For the year ended 31 December 2021		2020		Change (%)	Change on a constant currency basis (%)
Group Total Revenue	$9,692.1		$8,305.0		16.7%	13.1%
	Amount	% of Revenue	Amount	% of Revenue	Change (%)	Change on a constant currency basis (%)
Core Strategic Brands Revenue	$7,665.7	79.1%	$6,796.5	81.8%	12.8%	9.3%
CYBEX	3,384.5	34.9%	2,656.8	32.0%	27.4%	24.8%
gb	2,298.6	23.7%	2,472.0	29.8%	–7.0%	–12.9%
Evenflo	1,982.6	20.5%	1,667.7	20.0%	18.9%	17.6%

EXECUTIVE SUMMARY

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

- **CYBEX** brand continued to achieve record revenue with a strong growth of 27.4% (a 24.8% increase on a constant currency basis) in the Period to approximately HK$3,384.5 million from approximately HK$2,656.8 million for the corresponding period in 2020. The strong commercial performance was achieved amidst continuing volatilities from COVID-19 and intermittent shortages in product availability caused by global logistics capacity limitations and longer durations of lockdowns in its key markets in EMEA, North America and North Asia. The record achievement, partially offset by shortages of logistic capacities, dramatic increase in logistics costs, foreign exchange rate pressure and inefficiencies from COVID-19 lockdowns, was a result of CYBEX's very strong and enhanced brand position, continued expansion and fortification of omni-channels including national distribution networks, innovative product portfolio (both strollers and car seats) and new launches and strong global operations and supply chain management. Throughout the Period, CYBEX launched a number of new products; the launch of the world's first airbag equipped car seat CYBEX Anoris, the introduction of the sports category with a jogging stroller and bike trailer and constant iteration of its flagship products in wheeled goods of Priam and Mios are some highlights of its disruptive and aggressive product development efforts and commitment to safety, design and function. During the Period, CYBEX continued to receive multiple awards from European consumer testing organizations (e.g. ADAC). CYBEX continued reinforcing its leading position as the premium "technical-lifestyle" brand. We believe CYBEX outperformed competitions and gained market share in all key markets during the Period.

MANAGEMENT DISCUSSION & ANALYSIS

- **gb** brand recorded a decrease in revenue of 7.0% (a 12.9% decrease on a constant currency basis) in the Period to approximately HK$2,298.6 million from approximately HK$2,472.0 million for the corresponding period in 2020. In its key China market, gb recorded an expected revenue decrease of 5.8% (12.0% decrease on a constant currency basis). This anticipated revenue decline was primarily a result of a sustained decline in China's birth rate (approximately 12% in 2021 and nearly 45% cumulatively in the past 5 years), as well as impacts on our own offline and wholesale business due to intermittent COVID-19 related store closures and proactive consolidation of wholesale channels and optimization of own retail stores. gb continued to right-size and modernize the omni-channel distribution structure to further address the birth rate decline and rapidly changing consumer behavior. Concrete progress and improvement have emerged, including positive sales performance registered in new-generation self-owned stores opened during the Period and restructured e-commerce model with enhanced content marketing. We expect our progress and improvements to lay a solid foundation for business turnaround in 2022 and long-term sustainable business development. gb continued to dedicate resources to product development and innovation in the Period in both durable and non-durable products, and such efforts have been rewarded by receiving prominent awards, including two Red Dot Design Awards, one iF Design Award and one G-MARK design award ("Best 100").

- **Evenflo** brand recorded a revenue growth of 18.9% (a 17.6% increase on a constant currency basis) in the Period to approximately HK$1,982.6 million from approximately HK$1,667.7 million for the corresponding period in 2020. This achievement represents record revenue for the brand. The positive commercial performance, resulting in market share increases, was mainly driven by strong consumer acceptance of new innovative products introduced to enhance brand image, increasing brand acceptance as an innovative brand and strong focus on its key North America market. Evenflo's overall financial performance was severely impacted by dramatic increase in global supply chain costs, product availability challenges caused by supply chain logistics disruptions, significant rise in raw material input costs and foreign exchange rate pressure of a strong RMB against USD. Evenflo has implemented sustained remediation initiatives to partially offset the temporary headwinds. Evenflo's efforts in innovation and product development was acknowledged and validated by the prominent industry association by receiving the 2021 Juvenile Products Manufacturers Association ("JPMA") Innovation Award.

During the Period, our Blue Chip business recorded a significant revenue increase of 54.0% (a 49.1% increase on a constant currency basis) to approximately HK$1,535.5 million in the Period as compared to approximately HK$997.2 million for the corresponding period in 2020. The impressive business performance was mainly driven by strong demand from our Blue Chip customers. The Group continued to provide robust, value-oriented solutions for its key customers. Due to its successful service-oriented business model, the Group further strengthened its long-term partnership with Blue Chip customers. The Blue Chip business remains stable and sound.

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$490.9 million as compared to approximately HK$511.4 million in the corresponding period of 2020. The 4.0% decrease (a 7.5% decrease on a constant currency basis) was caused by the COVID-19 impacts combined with continued portfolio rationalization.

OUTLOOK

OUR GROUP PLATFORM REMAINS STRONG AND WE EXPECT CONTINUED GROWTH IN BOTH REVENUE AND MARKET SHARE. WE HAVE ENACTED INITIATIVES FOR A REBOUND IN PROFITABILITY AND WILL EXECUTE PLANNED INITIATIVES TO MANEUVER THROUGH DYNAMICS CAUSED BY CONTINUED COVID-19 RELATED DISRUPTIONS AND LIKELY GLOBAL ECONOMIC VOLATILITIES FUELED BY THE GEOPOLITICAL INSTABILITIES IN EUROPE.

We will continue 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 omni-channels (including national distribution platforms) in new geographic territories. A strong focus will be put on improving profitability via remediation initiatives including price increases which will become effective in the second quarter of 2022, combined with strong focus on global logistics and input cost increases. CYBEX is well prepared to rapidly adjust its commercial activities to the new realities of the evolving geopolitical environment in Europe.

gb will continue to focus on the China market. It will strongly focus on profitability by continuing to right-size and modernize the online/offline omni-channel structure, to address further birth rate declines and rapidly changing consumer behaviors. gb 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. We will continue to precisely 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.

Evenflo will continue to drive strong 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. There will be a strong focus on improving profitability via remediation initiatives including price increases which will become effective in the second quarter of 2022, combined with solutions to address global logistics and input cost increases. Evenflo will focus on mitigation of logistics disruptions, which are anticipated to linger through 2022. It will also proactively address global geopolitical and economic volatilities as they evolve.

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.

MANAGEMENT DISCUSSION & ANALYSIS

We expect certain continuing sporadic regional shutdowns due to COVID-19 resurgence, continued challenges in global logistics, raw material input costs and foreign exchange rate pressures, likely global economic volatilities due to political instability in Europe and continued birth rate decline in China. Accordingly, we remain vigilant and will implement further necessary proactive measures to ensure the ongoing viability of the Group performance. In the interim, the global environment remains very volatile and dynamic. Any significant resurgence of COVID-19 and/or increased global political and economic volatilities may influence the Group's commercial performance, but our strong global one-dragon vertically integrated 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 increased by 16.7% to approximately HK$9,692.1 million from approximately HK$8,305.0 million for the corresponding period in 2020. 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% increase compared to the corresponding period in 2020.

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

	For the year ended 31 December					
	2021		2020		Change (%)	Change on a constant currency basis (%)
(HK$ million)	Revenue	% of revenue	Revenue	% of revenue		
Group's own brand and retailer private label businesses	8,156.6	84.2	7,307.8	88.0	11.6%	8.2%
– APAC	2,994.6	30.9	3,059.2	36.8	–2.1%	–7.8%
– EMEA	2,979.1	30.8	2,455.2	29.6	21.3%	19.3%
– Americas	2,182.9	22.5	1,793.4	21.6	21.7%	20.1%
Blue Chip business	1,535.5	15.8	997.2	12.0	54.0%	49.1%
Total	**9,692.1**	**100.0**	**8,305.0**	**100.0**	**16.7%**	**13.1%**

The 11.6% increase (8.2% increase on a constant currency basis) of the Group's own brands and retailer private label businesses is the result of continued execution of our long-term sustainable vision and strategy of being the leader of a global parenting ecosystem (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$2,515.3 million in the Period against approximately HK$2,670.9 million in the corresponding period in 2020, a decrease of 5.8% (a decrease of 12.0% on a constant currency basis). The overall revenue decline in the Period was mainly attributed to anticipated temporary revenue decline of gb as result of the challenges from continuing birth rate decline together with resurgence of COVID-19 in China and continued proactive consolidation of wholesale channels and optimization of retail stores. The revenue from APAC markets outside China increased to approximately HK$479.3 million in the Period from approximately HK$388.3 million in the corresponding period of 2020, which was mainly attributable to the active growth of revenue from brand CYBEX.

- In region EMEA, we recorded revenue of approximately HK$2,979.1 million for the Period, an increase of 21.3% (19.3% on a constant currency basis) from approximately HK$2,455.2 million for the corresponding period in 2020. The growth in region EMEA was mainly attributable to the increase in revenue from our core Strategic brand CYBEX.

- In region Americas, we recorded revenue of approximately HK$2,182.9 million in the Period, an increase of 21.7% (20.1% increase on a constant currency basis) from approximately HK$1,793.4 million for the corresponding period in 2020. The increase was mainly attributable to the increase in revenue from our core Strategic brand Evenflo and the active growth of revenue from brand CYBEX.

During the Period, our Blue Chip business recorded an increase of 54.0% (49.1% increase on a constant currency basis) to approximately HK$1,535.5 million in the Period as compared to approximately HK$997.2 million for the corresponding period in 2020. The impressive business performance was mainly driven by strong demand from our Blue Chip customers. The Group continued to provide robust, value-oriented solutions for its key customers. Due to successful cooperation and services provided, the Group further strengthened long-term partnership with Blue Chip customers. Blue Chip business remains stable and sound.

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

Cost of sales increased by 22.9% to approximately HK$5,696.9 million for the Period from approximately HK$4,636.9 million for the corresponding period in 2020. Gross profit for the Group increased to approximately HK$3,995.2 million for the Period from approximately HK$3,668.1 million for the corresponding period in 2020, and the gross profit margin decreased by 3.0 percentage points to 41.2% for the Period from approximately 44.2% for the corresponding period in 2020. The decrease in gross profit margin was primarily due to:

- dramatic increase in all logistic costs including sea freight, inland and transfer cost, and shortage of logistic capacity;

- substantial increase of input costs of key raw materials; and

- weaker foreign exchange rates, especially EUR and US$ against the RMB,

partially offset by several mitigating price increase in late 2021, production-side cost efficiency improvement and hedging arrangement.

OTHER INCOME AND GAINS

Other income and gains of the Group decreased by approximately HK$9.2 million to approximately HK$80.8 million for the Period as compared to approximately HK$90.0 million for the corresponding period in 2020, which was mainly attributable to the decrease of government grants and decrease of gain on wealth investment products, partially offset by the increase in gain on sales of scrap materials.

MANAGEMENT DISCUSSION & ANALYSIS

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses primarily consist of marketing expenses, personnel costs, rental and commission and warehousing and transportation costs. The selling and distribution expenses increased by approximately HK$344.8 million to approximately HK$2,476.2 million for the Period from approximately HK$2,131.4 million for the corresponding period in 2020. The increase was mainly attributable to:

a) the increase in marketing expenses to approximately HK$517.9 million for the Period from approximately HK$409.3 million for the corresponding period in 2020 that generated the revenue growth;

b) the increase in warehousing and transportation costs to approximately HK$542.3 million for the Period from approximately HK$430.3 million for the corresponding period in 2020, with the combined effect of cost occurred for more products sold and higher logistic fee rate;

c) the increase in personnel costs to approximately HK$635.1 million for the Period, from approximately HK$570.6 million for the corresponding period in 2020, which was mainly attributable to organization expansion of CYBEX to facilitate continued rapid growth of CYBEX globally; and

d) the increase in rental and commission paid in retail channel to approximately HK$260.1 million for the Period from approximately HK$229.3 million for the corresponding period in 2020, which was a combined effect of increased investment on live streaming platforms, foreign exchange translation effect in the Period and rental and commission relief in the corresponding period in 2020.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses primarily consist of personnel costs, R&D costs, professional service expenses, depreciation and amortization cost and other office expenses. The administrative expenses increased by approximately HK$280.8 million to approximately HK$1,426.5 million for the Period from approximately HK$1,145.7 million for the corresponding period in 2020. The increase was mainly due to:

a) the increase in personnel cost to approximately HK$574.1 million for the Period from approximately HK$445.2 million for the corresponding period in 2020, which was a combined effect of foreign exchange translation effect, investment in CYBEX organization for continued future growth together with the effects of personnel cost savings to overcome COVID-19 impacts in the corresponding period in 2020;

b) the increase in the R&D cost to approximately HK$418.9 million for the Period from approximately HK$339.1 million for the corresponding period in 2020, which was mainly due to the resumption of delayed projects impacted by COVID-19;

c) the increase in the depreciation and amortization cost to approximately HK$105.2 million for the Period from approximately HK$78.4 million for the corresponding period in 2020, which was mainly due to investment in CYBEX infrastructure for continued future growth; and

d) other administrative expenses remaining stable.

OTHER EXPENSES

Other expenses of the Group decreased to approximately HK$7.3 million for the Period from approximately HK$51.0 million for the corresponding period in 2020. Other expenses of the Group decreased by approximately HK$43.7 million, which was mainly attributable to the decrease in impairment of property, plant and equipment.

OPERATING PROFIT

As a result of the foregoing, the Group's operating profit decreased by approximately 61.4%, or HK$264.0 million, to approximately HK$166.0 million for the Period from approximately HK$430.0 million for the corresponding period in 2020.

FINANCE INCOME

For the Period, the Group's finance income increased to approximately HK$35.1 million from approximately HK$6.0 million for the corresponding period in 2020. 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 HK$23.5 million to approximately HK$90.6 million from approximately HK$114.1 million for the corresponding period in 2020. The decrease was mainly attributable to optimization of loan structure and interest rate.

PROFIT BEFORE TAX

As a result of the foregoing, the profit before tax of the Group decreased by 65.1% to approximately HK$111.8 million for the Period from approximately HK$320.7 million for the corresponding period in 2020.

INCOME TAX

The Group's income tax was a credit of approximately HK$15.8 million for the Period, and the income tax expense was approximately HK$62.8 million for the corresponding period in 2020. The decrease in the amount of income tax was aligned with the decrease of the profit before tax of the Group.

PROFIT FOR THE YEAR

Profit of the Group for the Period decreased by 50.5% to approximately HK$127.6 million from approximately HK$257.9 million for the corresponding period in 2020.

The non-GAAP profit of the Group decreased by approximately 49.7% to approximately HK$192.4 million for the Period from approximately HK$382.4 million for the corresponding period in 2020.

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 costs for measures in response to the COVID-19 pandemic, certain one-off 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 2021 and 2020 to the nearest measures prepared in accordance with IFRS:

	Year Ended 31 December 2021				
		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	166.0	35.5	–2.8	41.9	240.6
Profit before tax	111.8	35.5	–2.8	41.9	186.4
Profit for the year	127.6	35.5	–2.0	31.3	192.4
Operating margin	1.7%				2.5%
Net margin	1.3%				2.0%

	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%

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 pandemic 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 2021	As at 31 December 2020
	(HK$ million)	
Trade and notes receivables (including trade receivables due from related parties)	1,254.2	1,141.2
Trade and notes payables (including trade payables due to related parties)	1,637.2	1,458.7
Inventories	2,402.8	2,061.4

	As at 31 December 2021	As at 31 December 2020
	(HK$ million)	
Trade and notes receivables turnover days[1]	44	48
Trade and notes payables turnover days[2]	98	108
Inventories turnover days[3]	141	156

Notes:

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

(2) Trade and 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 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 increase of trade and note receivables was mainly attributable to the increase of revenue. The trade and notes receivables turnover days remained stable.

The increase of trade and note payables was mainly attributable to the increase of procurement at the end of the Period. The decrease of trade and note payables turnover days was a result of the increase of cost of sales during the Period.

The increase of inventories was mainly attributable to the higher inventory in transit due to longer time of international transportation, the proactive initiative to reserve more inventory to mitigate risk from instability of global logistics and delayed shipments to key customers caused by disruptions in global logistics. The decrease of inventory turnover days was a result of the increase of cost of sales during the Period.

MANAGEMENT DISCUSSION & ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, 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$2,256.1 million (31 December 2020: approximately HK$1,725.9 million).

As at 31 December 2021, the Group's interest-bearing bank loans and other borrowings were approximately HK$3,517.5 million (31 December 2020: approximately HK$2,772.6 million), including short-term bank loans and other borrowings of approximately HK$1,223.1 million (31 December 2020: approximately HK$1,986.9 million) and long-term bank loans and other borrowings with repayment terms ranging from two to three years of approximately HK$2,294.4 million (31 December 2020: approximately HK$785.7 million).

As a result, as at 31 December 2021, the Group's net debt position was approximately HK$1,261.4 million (31 December 2020: approximately HK$1,046.7 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$") as its reporting currency, which is pegged to US$. The Group's revenue is mainly denominated in US$, RMB and EUR. The Group's procurement and OPEX are mainly denominated in RMB, US$ and EUR. The net exposures to foreign currency risks of the Group's operating results are mainly the US$ and EUR revenue against RMB procurement and OPEX. The Group would benefit from the appreciation of US$ and EUR against RMB but would suffer losses if US$ or EUR depreciates against RMB. The Group uses forward contracts to eliminate the foreign currency exposures.

PLEDGE OF ASSETS

As at 31 December 2021, bank deposits of approximately HK$805.6 million (31 December 2020: nil) were pledged for certain standby letter of credit from banks and for guarantee. Bank deposits of approximately HK$7.1 million (31 December 2020: HK$25.7 million) were pledged for interest reserve. Bank deposits of approximately HK$330.3 million (31 December 2020: nil) were pledged for certain long-term bank loans. Certain machinery amounting to approximately HK$5.8 million (31 December 2020: HK$10.8 million) was pledged to secure bank loan granted to the Group.

GEARING RATIO

As at 31 December 2021, 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 monetary assets, including cash and cash equivalents, pledged time deposits and financial assets designated at fair value through profit or loss; the amount of adjusted capital is calculated by equity attributable to owner of the parent minus hedging reserve) was approximately 38.6% (31 December 2020: approximately 37.4%), or 40.4% after taking into consideration the
impact of IFRS 16) (as at 31 December 2020: approximately 38.9%).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group had a total of 8,826 full-time employees (31 December 2020: 9,375). For the Period, costs of employees, excluding Directors' emoluments, amounted to a total of approximately HK$1,804.4 million (year ended 31 December 2020: approximately HK$1,560.8 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 emoluments of the Directors of the Company are generally recommended by the Remuneration Committee for approval by the Board, having regard to the Group's operating results, individual performance and comparable market rates. All the emoluments of Directors have been reviewed and approved by the Remuneration Committee. Details of the emoluments of the Directors are set out in note 9 to the consolidated financial statements of this annual report.

On 5 November 2010, the Company adopted a share option scheme ("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 2021, there were 136,099,167 outstanding share options in total under the 2010 Share Option Scheme and the 2020 Share Option Scheme (31 December 2020: 140,706,500 share options).

KEY RISKS AND UNCERTAINTIES

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

MANAGEMENT DISCUSSION & ANALYSIS

OPERATIONAL RISK

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

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

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

BUSINESS RISK

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

FINANCIAL RISK

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

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

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

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

REGULATORY AND COMPLIANCE RISK

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

Directors & Senior Management

DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

SONG Zhenghuan (宋鄭還), aged 73, 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 each 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) Rollplay (Hong Kong) Co., Limited;
(xvii) OASIS DRAGON LIMITED;
(xviii) Goodbaby Retail & Service Holdings Company;
(xix) Goodbaby (China) Retail & Service Company; and
(xx) 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 52, 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 52, 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 Group's 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 each 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 54, 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 each 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 shareholder of the Company.

* *For identification purpose only*

Michael Nan QU (曲南), aged 54, was appointed as an executive director of the Company since 18 March 2014 and chairman for the Northern and Southern American 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 each 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.;
(xiii) Goodbaby Europe Holdings Limited; and
(xiv) Columbus Trading – Partners Canada Inc..

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 70, 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 each 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 65, 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 81, 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, resigned as an independent non-executive director of South Shore Holdings Limited (formerly known as The 13 Holdings Limited), a company listed on the Stock Exchange, on 18 May 2021, and retired as an independent non-executive director of Tencent Holdings Limited, a company listed on the Stock Exchange, on 20 May 2021.

Mr. Bruce is currently an 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 75, 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 (張昀), aged 54, 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 46, 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, he 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, he 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 49, 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.

David B, TAYLOR, aged 59, is the Senior Vice President, Group Business Development and M&A, Vice Regional Chairman Americas and CEO of the strategic brand Evenflo. Mr. Taylor joined the Group in March 2015, after years of successful experience in the global juvenile industry. Mr. Taylor previously held the roles of Chief Financial Officer and Chief Operating Officer at Evenflo and subsequently assumed the role of SVP, Group Business Development and M&A in 2018. He assumed the role of Evenflo CEO in September 2021. Prior to joining the Group, Mr. Taylor was Chief Operating Officer at Welch Packaging Group in Elkhart, IN from 2013 to 2015. Before joining Welch Packaging Group in 2013, he worked for nine years at Dorel Juvenile Group, Inc. as President and CEO from 2006 to 2012, for which he was responsible for the Dorel Juvenile Group's hundreds of millions in revenue from its juvenile consumer products business, the primary focus of which was the marketing and manufacturing of children's furniture, gear and safety products serving the world's retail and consumer markets. Mr. Taylor started his career at Price Waterhouse and later worked for several other US consumer goods/industrial companies. Mr. Taylor has over 30 years of professional experience in total, with six years of international experience, having worked in Hong Kong and Germany.

COMPANY SECRETARY

HO Siu Pik (何小碧), is an Executive Director of Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated Business, Corporate and Investor Services. Ms. Ho 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 Governance Professional and a Fellow of both the Hong Kong Corporate Governance Institute ("HKCGI") (formerly The Hong Kong Institute of Chartered Secretaries ("HKICS")) and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators).

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PART 1: EXECUTIVE SUMMARY

ABOUT THE REPORT

Goodbaby International Holdings Limited (together with its subsidiaries hereinafter referred to as "the Group", "Goodbaby International", "Goodbaby" or "we") has prepared its 2021 Environmental, Social ad Governance ("ESG") Report in accordance with the latest update of the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide"), which is contained in Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK"). This report incorporates a statement from the Board of Directors (the "Board") and in the course of its preparation and compilation it has followed the reporting principles of Materiality, Quantitative and Consistency, as well as the Reporting Boundary, in respect of collecting relevant materials, analysing data and reviewing information.

For details of the corporate governance practices of the Group, please refer to the Corporate Governance Report section in pages 97 of the 2021 Annual Report.

REPORTING PERIOD AND SCOPE

This report covers initiatives and achievements relating to the Group's environmental, social and governance practices and their integration into the Group's corporate strategy and risk management for the period from 1 January 2021 to 31 December 2021 (the "Reporting Period"). Unless otherwise specified, the policies, statements and key performance indicator data given in this report cover the Group's main operational sites in the People's Republic of China (the "PRC"), the Federal Republic of Germany ("Germany"), the United States of America (the "U.S."), the United Mexican States ("Mexico") and Japan, and its activities across research and development ("R&D"), manufacturing, logistics, marketing and distribution, and retailing. These are consistent with the scope of its financial report.

The Group will continue to refine the scope of its environmental, social and governance reporting, and may include new topics and expand the depth of its reporting in the future.

DATA SOURCES AND RELIABILITY ASSURANCE

The data in this report, including information about the Group's policies, initiatives, practices and case studies, comes mainly from its internal systems, statistics, reports and records. The Group takes responsibility for the authenticity, accuracy and completeness of the content of its Environmental, Social and Governance Report.

CONFIRMATION AND APPROVAL

Following confirmation by the Environmental, Social and Governance Working Group and approval by the Chief Executive Officer of the Group, this report was approved by the Board on 22 March 2022.

PART 2: ESG STRATEGY AND SUPERVISION

ABOUT THE GROUP

Under its motto "Improving Children's Living Conditions and Enhancing Children's Living Quality", Goodbaby International has evolved since its inception 32 years ago into a world-leading juvenile products group, with Germany, the U.S. and the PRC as its home markets. Through our design, R&D, manufacture, marketing and sales of children's car safety seats, strollers, apparel, daily living products, toys and other products, we have to date served hundreds of millions of families in more than 90 countries and regions across the globe. Our capabilities in R&D and design, supply chain and quality management, as well as our rapid responsiveness to market needs, have enabled us to win much recognition among our industry peers, and have helped us forge long term supplying relationships that have further expanded the Group's advantages in terms of economies of scale.

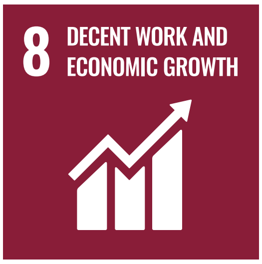
The Group's three omni-channel brands of CYBEX, Evenflo and gb each enjoy leading position in respective home market, and developed influential local brands including CBX, HD, Exersaucer, Urbini and Rollplay for different countries and regions. The result has been an excellent network served by products ranging from high-end stylish brands to household names, all catering for the multi-faceted needs of consumers in the parenting sphere.

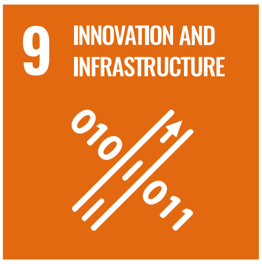
Despite that during 2021 the successive outbreaks of COVID-19 had yet been brought under effective control, we managed to refine our sales models in key markets and boosted our online sales, achieving a year-on-year growth of 16.70% in sales revenue.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As a responsible corporation, we safeguard "absolute safety" as a bottom line for our brands and products. With climate change bringing major crises and ruptures in human societies, we actively promote phased development of environmentally friendly products and relentlessly reduce emissions, including greenhouse gases ("GHG"), in our operating activities. Managing the entire life cycle of our products is of great importance to us, and we urge our upstream suppliers to join hands with us with a view to collectively taking corporate social responsibility to a new level.

Benchmarking with the United Nations Sustainable Development Goals:

SDGs	Commitment	Corresponding Sections in This Report
	**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.	PART 5: UNCOMPROMISING STANDARDS BRING LEADING PRODUCT QUALITY PART 6: CUSTOMER DEMANDS ENABLE CREATIVITY AND INNOVATION
	**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".	PART 7: ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION DRIVE ECO-FRIENDLY PRODUCTS PART 8: STAFF DEVELOPMENT CHANNELS HARMONIOUS COMMUNITIES

SDGs	Commitment	Corresponding Sections in This Report
	**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.	PART 5: UNCOMPROMISING STANDARDS BRING LEADING PRODUCT QUALITY PART 6: CUSTOMER DEMANDS ENABLE CREATIVITY AND INNOVATION PART 8: STAFF DEVELOPMENT CHANNELS HARMONIOUS COMMUNITIES

STATEMENT FROM THE BOARD

RISKS AND OPPORTUNITIES

Goodbaby International, a leading global juvenile products group, understands that climate uncertainty resulting from global warming may seriously disrupt the agricultural and protein productivity that human life relies on. This, coupled with the many secondary hazards being brought forth, would aggravate the structural inequality in resources allocation, posing an existential threat to future generations and even humankind in its entirety.

Goodbaby International serves hundreds of millions of families in different stages of parenthood around the world. Our products rely greatly on fabrics, plastics and metals, and our production processes consume electricity and other energy resources. We are and shall remain vigilant towards the topics of climate change and intergenerational conflict. The Group stands with the 17 United Nations Sustainable Development Goals ("SDGs"), and takes into account the regulations and guidance on realising green targets for biodiversity and GHG emissions specified by the countries and regions in which we operate when formulating corporate strategies and measures. This allows us to proactively reduce our dependence on non-renewable resources and cut down our waste and emissions, living up to our commitment of "caring for children, serving families and giving back to society".

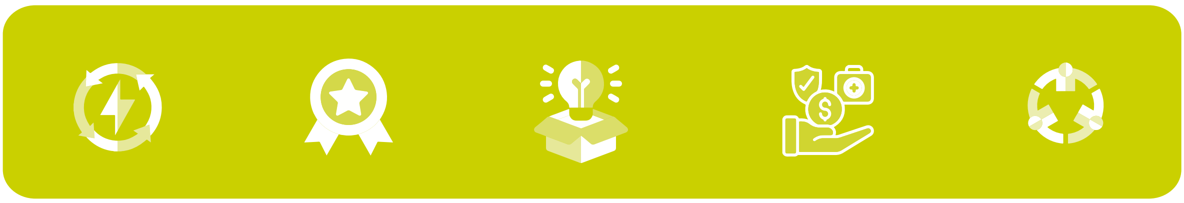
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STRATEGY, APPROACH AND GOALS

Through multiple modes of communication and interaction, we have over recent years engaged with our stakeholders including consumers, governments and regulatory bodies, business partners, shareholders and employees to better understand their concerns about and expectations of our products, services and business conduct. Such feedback helps shape our sustainable development approach, including our five pillars of sustainability framework, namely leading product quality, creativity and innovation, energy conservation and environmental protection, caring for employees, and connecting with local communities. It has also been instrumental in the setting up of related goals and prioritising resources so that we integrate the ESG factors into our business strategy and operating activities.

In 2021, the Group's key tasks and goals under its sustainability framework were as follows:

Sustainability framework and key tasks and goals for 2021:



Energy Conservation and Environmental Protection	Leading Product Quality	Creativity and Innovation	Caring for Employees	Connecting with Local Communities
3 GOOD HEALTH AND WELL-BEING	3 GOOD HEALTH AND WELL-BEING; 9 INNOVATION AND INFRASTRUCTURE	9 INNOVATION AND INFRASTRUCTURE	8 DECENT WORK AND ECONOMIC GROWTH	3 GOOD HEALTH AND WELL-BEING
• Reduction in emission intensity	• Enterprise standards setting and upgrades	• Alternative packaging materials	• COVID-19 control	• Promotion on the use of child safety seats as specified by law
• Reduction in resources consumption intensity	• Quality management system certifications	• Product weight reduction	• Occupational health and safety certifications	• Community engagement tailored to local conditions
• Environment management system certifications	• Supplier guidelines	• Recycled materials utilisation	• Inclusion and diversity	
• Energy management system certifications			• On-the-job and skill trainings	

The Group is in the course of conducting specific studies for the development of an actionable net-zero emissions roadmap and timetable, in a bid to maintain a high degree of consistency with the national targets of the countries and regions where it operates. The plan and targets are expected to be completed by the end of 2022, and will be announced thereafter.

OVERSIGHT AND ACCOUNTABILITY

The Board is ultimately responsible for Goodbaby International's ESG strategies and performance. The Board delegates the Group Chief Executive Officer with the responsibilities to 1) identify ESG-related risks and opportunities, and establish risk management and internal control systems; 2) formulate ESG approaches, strategies, priorities, and adequately analyse the principles and processes adopted, and review related progresses made; 3) ensure ESG goals and strategies are aligned with the expectations or requirements of the Nationally Determined Contributions ("NDCs") targets of the countries or regions in which the Group operates; and 4) fulfil the regulatory requirements for ESG reporting.

To achieve these responsibilities delegated by the Board, the Group Chief Executive Officer has formed an ESG Working Group ("Working Group") to drive ESG-related work in four main areas. They are 1) the establishment, improvement and implementation of policies and systems; 2) the assessment of risks and opportunities, establishment of targets, and monitoring of progress made; 3) the construction of information systems and compilation of reports; and 4) the inspection of risk management and internal control systems. A bi-monthly reporting system has been put in place in this respect.

Chief Executive Officer	Working Group
• Performs ESG risk management and internal control • Formulates ESG-related policies and submits them to the Board for approval • Validates the ESG report and confirms the accuracy of the performance indicator data • Directs the work of the ESG Working Group and allocates sufficient resources for the completion of its work.	• Establishes and maintains ESG-related policies • Supervises the implementation of related policies and the realisation of targets • Arranges dedicated personnel to take charge of relevant data collection and report compilation • Reports regularly to the management to help assess and examine the accuracy and effectiveness of the Group's ESG risk management and internal control systems.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG KEY ACHIEVEMENTS

The Board is pleased to announce that the Group has achieved an array of ESG targets for the year of 2021.

- GHG emission intensity (per HK$ million of revenue) decreased by 28.90% year-on-year, and by 17.49% compared with 2019
- Electricity consumption intensity (per HK$ million of revenue) decreased by 12.83% year-on-year, and by 11.92% compared with 2019
- Water consumption intensity (per HK$ million of revenue) decreased by 6.00% year-on-year, and by 15.76% compared with 2019

The decreases in GHG emission intensity and electricity consumption intensity are attributable to the energy conservation and emission reduction initiatives introduced by the Group throughout its production processes. However, with the COVID-19 pandemic impacting on the Group's sales performance in 2020, the emissions and energy consumption intensity recorded during that year were slightly higher than normal. Readers of this report are also reminded that the grid emission factor used to calculate the carbon emissions from purchased electricity is adjusted every year to reflect changes in the proportion of clean energy connected to the grid.

PART 3: MATERIALITY ASSESSMENT AND CONFIRMATION

The Group's identification and disclosure of material ESG topics is an important reporting principle by which this report is abided. Being a leading corporation in the industry, we are fully aware of the impact that our decision-making process in business can have on different stakeholders. We are therefore committed to engaging with our stakeholders including consumers, governments and regulatory bodies, investors, suppliers, distributors and employees in constructive dialogues via regular operating activities and/or dedicated channels, with the aim of better understanding their views and opinions as well as soliciting their comments and feedback.

IDENTIFICATION OF POTENTIAL MATERIAL TOPICS

In 2021, the Group continued to utilise the approaches laid out in the table below for communication with our stakeholders. Reference was also made to 1) the material topics for the manufacturing and retailing sectors under the Sustainability Accounting Standards Board Standards; 2) the requirements as stipulated by relevant regulatory bodies; 3) media discussions about ESG-related topics in the industry; 4) major events outlined by different business units and functional departments of the Group during the year; and 5) the results of the materiality assessment of the Group for the year 2020. To this end, we determined the Group's ESG topic universe as follows, comprising 14 environmental-, 14 social- and 4 governance-related topics of risks and opportunities, and added governance aspect of content as compared with the previous year.

Environmental	Social	Governance
1. GHG emissions	15. Compensation and welfare	29. Board effectiveness
2. Product carbon footprint	16. Employee development and training	30. Compliance with laws and regulations
3. Impacts of climate change	17. Work intensity and health	31. Feedback mechanism
4. Green finance	18. Equal opportunities	32. Anti-bribery and corruption
5. Circular economy	19. Production safety	
6. Renewable energies	20. Technological development and innovation	
7. Energy consumption and efficiency	21. Product quality and safety	
8. Water consumption and management	22. Customer service	
9. Reliance on non-renewable energies	23. Privacy and data security	
10. Hazardous gas emissions	24. Responsible marketing	
11. Waste management	25. Supply chain labour standards	
12. Packaging materials	26. Supply chain business ethics	
13. Plastic waste	27. Environmentally friendly materials	
14. Noise pollution	28. Community relations	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Based on these 32 topics, we communicated with various stakeholder groups through interviews and/or questionnaires and gathered their topics of concern listed below. We received no supplementary suggestions for the topic universe.

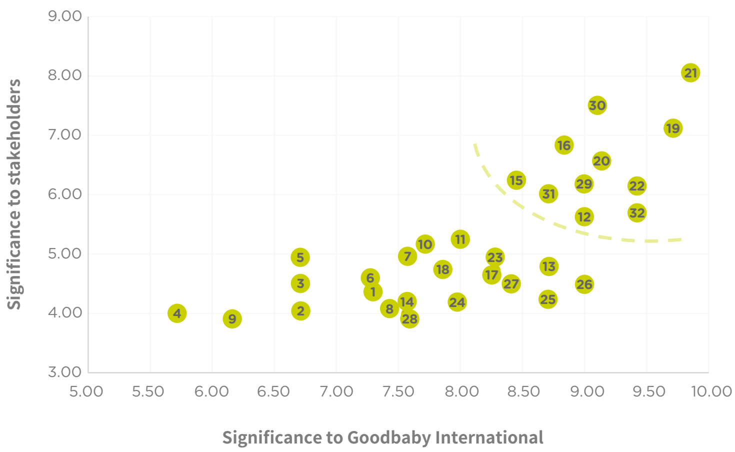
Stakeholder Groups	Topics of Concern	Usual Communication Channels
Employees	• Compensation and welfare • Product quality and safety • Plastic waste • Feedback mechanism • Compliance with laws and regulations	• Face-to-face interviews with employees • Internal emails • Internal WeChat official accounts
Shareholders/ investors	• Technological development and innovation • Product quality and safety	• Annual General Meetings/Investor meetings • Results announcements • Public announcements/press releases
Government/ regulatory authorities	• Production safety • Waste management • Circular economy • Compliance with laws and regulations	• Onsite due diligence • Meetings • Written replies and reports
Suppliers	• Product quality and safety • Energy consumption and efficiency • Compliance with laws and regulations • Feedback mechanism	• Onsite due diligence • Annual supplier review • Supplier conference
Distributors	• Product quality and safety • Customer service • Compliance with laws and regulations • Feedback mechanism	• New product R&D and introduction • Written reports/emails • Onsite due diligence
Consumers	• Packaging materials • Product quality and safety • Customer service • Technological development and innovation • Production safety	• Corporate website • Physical retail stores • WeChat official accounts/ social media • Customer hotlines

The Group was unable to collect responses to questionnaires from media and community organisations in 2021. In the coming year, we will look to collect their concerns and suggestions via questionnaires and regular interactions.

MATERIALITY ASSESSMENT

In accordance with the relevant requirements of Appendix 27 to the Main Board Listing Rules of the SEHK, the Group embarked upon its materiality assessment from both internally and externally and amalgamated the expectations of stakeholders with the Group's business strategies and policies, drawing up a materiality matrix for the year 2021. The results showed that material topics of high concern cover: product quality and safety, compliance with laws and regulations, technological development and innovation, production safety, board effectiveness, customer service, feedback mechanism, anti-bribery and corruption, compensation and welfare, staff training and development, and packaging materials.

Goodbaby International Materiality Matrix



	ESG Issues
Environment	
1.	GHG emissions
2.	Product Carbon footprint
3.	Impacts of climate change
4.	Green finance
5.	Circular economy
6.	Renewable energies
7.	Energy consumption and efficiency
8.	Water consumption and management
9.	Reliance on non-renewable energies
10.	Hazardous gas emissions
11.	Hazardous gas emissions
12.	Packaging materials
13.	Plastic Waste
14.	Noise pollution
Social	
15.	Compensation and welfare
16.	Employee development and training

	ESG Issues
17.	Work intensity and health
18.	Equal opportunities
19.	Production safety
20.	Technological development and innovation
21.	Product quality and safety
22.	Customer service
23.	Privacy and data security
24.	Responsible marketing
25.	Supply chain labour standards
26.	Supply chain business ethics
27.	Environmentally friendly
28.	Community relations
Governance	
29.	Board effectiveness
30.	Board effectiveness
31.	Feedback mechanism
32.	Anti-bribery and corruption

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Working Group reported to the Chief Executive Officer and senior management on the materiality assessment results as shown in the materiality matrix, especially the 11 topics considered of higher priority by both stakeholders and the management. These material ESG topics approved by the Board are presented in this report under respective sections, according to the following table. The topic of board effectiveness is reviewed in the corporate governance section on pages 97 of the 2021 Annual Report.

Report Chapters	Material Topics
Business ethics and anti-corruption	Anti-bribery and corruption (No. 32), Feedback mechanism (No. 31), Compliance with laws and regulations (No. 30)
Uncompromising standards bring leading product quality	Product quality and safety (No. 21), Customer service (No. 22)
Customer demands enable creativity and innovation	Technological development and innovation (No. 20)
Energy conservation and environmental protection drive eco-friendly products	Packaging materials (No. 12)
Staff development channels harmonious communities	Compensation and welfare (No. 15), Production safety (No. 19), Employee development and training (No. 16)

PART 4: BUSINESS ETHICS AND ANTI-CORRUPTION

Our operating activities strictly comply with all applicable laws and regulations of the countries and regions where we operate, as well as the entry requirements and standards of those markets in which our products are distributed and sold. We act to safeguard and promote fair competition practices in all markets.

As a listed company in Hong Kong, we strictly observe the requirements stipulated by the SEHK for disclosures of connected transactions and inside information, and have formulated appropriate internal systems and review mechanisms, including the provision of training and workshops for those in relevant positions. We have developed our *Code of Business Conduct* which emphasises our corporate principles of honesty and integrity, and have laid down a series of internal policies, including an *Anti-bribery and Corruption Policy* and a *Conflict of Interest Policy*, to ensure that there are processes and procedures for dealing with these situations along with relevant training for all staff, from directors to operators. In 2021, the Group organised anti-bribery and corruption training for all members of the Board and 1,175 head counts of employees, covering roughly 97% of the management team members. We also completed training on managing conflicts of interest for all our teams (except frontline manufacturing staff) in the U.S., Germany and the PRC, and enhanced our annual declarations system for relevant conflicts of interest in all regions of the Group. A committee to manage declarations of conflicts of interest and business conduct was formed in the PRC, while a management system for conflict-of-interest declaration is under review elsewhere within the organisation.

We have also drawn up a *Whistleblowing Policy* and put in place a number of channels including a reporting hotline to enable employees and other stakeholders to monitor and report on any existing or potential direct or indirect fraud, acts of bribery or corruption, or conduct in violation of primary company policies. We state clearly in our *Whistleblowing Policy* the principles and mechanism to protect informants against any kind of unfair treatment. The chairperson of the Group's audit committee is charged with the responsibility for such reported cases and any subsequent investigations if needed. We also share our best practice with and urge our business partners to establish and observe the same principles. During the year ended 31 December 2021, the Group did not have any concluded legal case regarding corruption practices brought against the Company or its employees .

PART 5: UNCOMPROMISING STANDARDS BRING LEADING PRODUCT QUALITY

Goodbaby International brings to life its mission of "Improving Children's Living Conditions and Enhancing Children's Living Quality" through products and services that aim to deliver "absolute safety" and "utmost experience". Such efforts and achievements have received widespread recognition among consumers and peers alike in the markets worldwide. The Group has been playing an important role in setting national standards of the PRC and elevating international standards for child safety seats, having become proficient in applying relevant European and American standards in its own practices over the past decade or so.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

At Goodbaby International, we have established a set of stringent standards that are well above national and international standards. Through years of progressive efforts made to push for “zero tolerance to defect” quality control system, which have been enabled by our industry-leading testing laboratory for juvenile products, we are able to apply enterprise standards to all of the products we offer to consumers. Moreover, we continue to work alongside our upstream suppliers to promote high quality and sustainable development across the entire industry supply chain.

IN PURSUIT OF UNCOMPROMISING STANDARDS

Goodbaby International has been acting as a responsible enterprise and making the best possible for over 30 years now. By the end of 2021, the Group had taken part in the drafting of a total of 150 international standards and 87 national and industry standards. Of these, 198 standards have been validated and approved, including five standards that were approved in 2021.

International Standard	ISO/TS 13396:2021	Road vehicles – Sled test method to enable the evaluation of side impact protection of child restraint systems – Essential parameters
National Standard	GB/T 40227-2021	Infant hip seat carriers
U.S. Standard	ASTM F2613-2021	Standard consumer safety specification for children’s folding chairs and stools
Group Standard	T/SZBX 008-2021	Children’s safety seats for motor vehicles
Group Standard	T/JSMBPA 002-2021	Evaluation rules for children’s helmets

Goodbaby International's enterprise standards encompass over 80 standards for products and over 60 standards for components. Many of the key indicators, such as those for collision protection, dynamic durability, handlebar strength and material composition, far exceed internationally accepted industry specifications. This is especially true for the testing of hazardous substances in production materials, which covers over 300 types, far exceeding the 19 substances regulated by the European Union. The superiority of Goodbaby's enterprise standards lies both in the fact that they cover the most extensive subjects and are the strictest standards in the industry, but also in its visionary attempts to explore the possibility of further upgrading various key technical indicators in multiple disciplines. In particular, the Group has drawn on quality management standards developed by the automotive industry, complemented by hazard analysis and critical control points adopted by the food industry, to thoroughly test all possible product misuse and abuse scenarios and create the best possible protection for child users. In 2021, the Group added seven more new standards to its enterprise standard system.

Item	Standard Series No.	Standard Name
1.	Q/GTS B0108-2021	Safety requirements for strollers
2.	Q/GTS B0504-2021	Safety requirements for children's dining chairs
3.	Q/GTS B1411-2021	Safety requirements for children's seats for motor vehicles
4.	Q/GTS B0902-2021	General technical requirements for children's electric strollers
5.	Q/GTS B0109-2021	General technical requirements for strollers
6.	Q/GTS HL001-2021	Infant safety fences
7.	Q/GTS B1180-2021	Safety requirements for infant tableware and tableware accessories

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Goodbaby Standards Committee, established in 2010, is in charge of the Group's enterprise standards. It issues new releases and updates in accordance with the *Product and Components Standards Management Policy*. The Committee provides institutional assurance for the allocation of resources to maintain the Group's leadership position in standard-setting. The Committee, brings together the rich experience and expertise of over 50 specialists from home and abroad, and ensures that Goodbaby's enterprise standards remain at the forefront in safety, reliability and user experience across materials, products, procurement and manufacture standards.

Functions of the Goodbaby Standards Committee

In 2020, the Group took part in the formulation of the international quality and safety standard for wheeled child conveyances (ISO 31110:2020) 2016DEC-2020DEC. Our professionalism and leadership have won us high praise from over 60 international experts in the industry. Thereafter in 2021, we served as the Chairman and Secretariat of the ISO/TC 310 Committee and worked together with more than 80 experts across the globe to promote and further develop juvenile products standards.

Standards Committees joined by Goodbaby International

ISO/TC 310 Chairman, ISO/PC310 Secretariat/Chairman
ISO/TC 22 Expert panel
SAC/TC 253 Vice Chairman
SAC/TC 463 Committee member
SAC/TC 480 Committee member
CPSC F15 Committee member, CEN/TC 252, CPSA

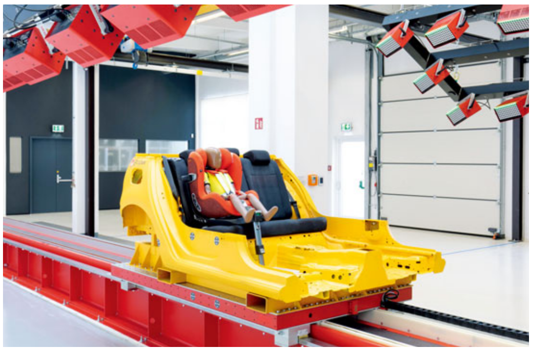
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case study: Constantly raising standards and new breakthroughs in children's safety and health

The child car seat test simulates a frontal collision of 50km/h for the European and U.S. standards. However, according to our database, 5% of road traffic accidents occur at a higher speed. In 2020, we began to develop child car seats designed to survive a collision simulation of 80km/h. Our breakthrough patented technology of cellulosic deformation and energy absorption enabled us, after conducting more than 20,000 impact tests, to successfully release products meeting the 80km/h criteria in 2015, significantly enhancing safety levels. Products applying these standards were named the 8 series. Since 2021, we have applied this enterprise standard to all child car seat products under the Group's gb brand.

Case study: Living up to our corporate mission, strictly preventing children's exposure to lead

While the most stringent international standard for the total lead content of materials accessible to children is ≤100ppm, Goodbaby International has adopted a level of ≤20ppm as its enterprise standard. Lead is the only trace element not required by the human body, and long term exposure to trace amounts of lead can lead to chronic lead poisoning, with children being more vulnerable to this. Children generally absorb lead more easily and efficiently, and their absorption of lead can be several times that of adults. Blood lead concentrations far above the blood lead reference value can adversely affect children's intellectual abilities, and cause brain damage in severe cases. The damage that lead can cause to children is direct, and can be irreversible. Goodbaby International has therefore set much higher standards of testing requirements for the sake of children's health and development.



THE CORNERSTONE OF SAFETY

As a major player in the juvenile products industry, Goodbaby International embraces extraordinary product responsibility. For children, who are still to form a proper sense of safety and self-protection, product quality and reliability are important and much relied-on protective barriers. In view of this, Goodbaby International has upheld a "quality first" philosophy in all its production and operation activities since its inception. It has instilled its quality risk control concept of "zero defect, zero tolerance" into the entire production cycle from conceptual design, industrial design, procurement specifications through mould development to mass production and warehousing logistics. At present, in the PRC, there are a total of 967 quality management manuals and more than 10,000 operating procedures in use.

The Group has a Quality Management Committee chaired by the Group President and joined by the Chief Quality Officer. The Committee is responsible for formulating and supervising quality-related strategies and policies that form a prevention and management mechanism covering systems, approaches and incentives for all employees, and for the entire production process.

PRODUCTION QUALITY SYSTEM

The Group has a total of five production bases, located in Kunshan, Ningbo and Pingxiang in the PRC, Piqua in the U.S., and Tijuana in Mexico. With an establishment of 6,249 frontline operators at the end of 2021, we were principally engaged in the production of durable juvenile goods covering child car seats, strollers, electric ride-ons for kids, cribs and baby seats. All of our three production bases in the PRC are certified with the ISO 9001 Quality Management System, and our supply chain system is managed according to the GBT 19580 Excellent Performance Evaluation Criteria. We continuously optimise and upgrade our quality management by drawing on the stringent processes and quality management system of the automobile industry. In the Americas, our two production bases operate according to a set of quality management systems and procedures based on ISO standards and principles.

Robust Manufacturing– Enabling digitization, make sure everything is in order **7 stages, 137 key tasks**

RM	Concept Development & Design	Project Approval	Product Design	Industrialization, Verification & Validation	Production Pilot	Start of Production	Link Market
PM	• Concept quotation • Prototype quotation • Prototype testing	• Project schedule • Project cost/investment • List of open issues • Annual forecast • Target price	• Schedule:3D/2Ddata • Schedule: KPC,KCC • Schedule: tooling • Materials/Equipment/Tools/-Jigs	• Schedule: engineering pilot • Engineering pilot samples • Components Measurement reports	• Technical release • Parts meet drawings 100% • Schedule:Production • Pilot/BOM/artworks/packaging • Testing/measurement/RTP	• Production start • 1st container shipping	• Project close after 3-6 months
PE	• SDF • Technical evaluation • Weak analysis	• DFMEA • CAE • SDF • 3D • Design check	• KPC list • Tolerance analysis • Key components list • 2D drawings • BOM	• Reference samples/engineering changes • Parts meet drawings 100% • Update KPC list • The Explosion figure	• Production BOM • Parts meet drawings 100%	• ECN implement consistency • Product lessons • VAVE	• User experience
ME	• Process feasibility analysis • Process lessons learned	• New technology evaluation • Labor cost analysis (quotation) • Process feasibility analysis	• Process feasibility analysis KCC • Process flow chart • PFMEA • Facilities/Equipment/tools • Process Standardization	• Process flow chart • PFMEA • Poka-yoke list • Labor cost analysis (production) • KCC update • SOP	• Line balancing • Line layout+ Poka-yoke • SOP • Process flow chart • PFMEA • CMK	• Technical breakthrough • Digitalization construction • Automation construction • SOP implement consistency • Jig & fixture upgrade • IE basis consistent improvements	• CIP
QE	• Lessons learned	• QR • SDF	• Test plan • List of checking jigs	• list of pending issues • Pilot production control plan • Measurement &test report • SIP • CCD detection • MSA plan	• CPK • PPAP of critical parts • Production control plan • Measurement of finished goods • MSA analysis	• GBES • 8QB • SIP implement consistency • Supplier quality management • Assembly line start management rules	• Brand quality improvement

Digital Factory

- **MES**: Incoming logistic execution; Plan dispatch; Workshop operation; Material management; Process monitoring; Process management; Process quality; Equipment management; Fixture management; Board management; Outcoming logistic execution; WMS
- **iOT**: CCD detection; Intelligence FIX test; ISOFIX2 automation; Headrest automation; FIX traceability system; Automatic cutting in tool; Automation platform line; Automation glue

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's production bases perform strict on-the-spot self-inspections and designated quality control inspections throughout the whole production process, including (but not limited to) materials inbound, assembly operation, first piece production, and shipments. Furthermore, industry-leading quality inspection systems such as a CCD intelligent error-proof imaging system and an ISOFIX intelligent dynamic value testing system have been developed and are used at our production bases in the PRC to ensure zero defect manufacturing.

CCD intelligent error-proof imaging system

ISOFIX intelligent dynamic value testing system

SUPPLY CHAIN QUALITY ASSURANCE

The Group has close to 1,000 suppliers, who form an important part of Goodbaby International's robust quality management system and work as solid partners that in fortifying the reputation of our major brands. During the reporting period, the Group had business dealings with 906 suppliers. Of these, 75 were from the U.S. and Mexico, accounting for approximately 8% of the total number of suppliers, while the rest were Chinese enterprises. Our suppliers are primarily categorised into suppliers of production materials (metals, fabrics and plastics), suppliers of non-production materials (chemicals and packaging materials), and OEM suppliers. All our long term and strategic partners are ISO 9001 certified.

In addition to the procurement function, the Group specifically puts in place a supplier quality management team to monitor related quality level and perform monthly evaluations during the supplier selection and order fulfilment process. The Group has also incorporated environmental consideration in its supplier selection process and requires suppliers to meet the Group's standards of environmentally preferable materials. During the reporting period, 201 suppliers failed our appraisal process and were removed from our list.

Supplier Quality Eliminate Chart

	Eliminate Flow Chart	Action Plan	Responsible
Collect Eliminate Supplier List	Eliminate Supplier	Supply Management/All Plants/BU Supply Management collect eliminate supplier list monthly Supply Management	Supply Management/ All Plants Supply Management
Meeting Discuss Stage	Judge	Supply Management invite International Purchase/ All Plants/BU Supply Management/BU Purchase to discuss and give the comment	International Purchase/ Supply Management/ All Plants Supply Management/All Plants Purchase
Implement Stage	Eliminate; Rectify	According to meeting minutes, eliminate supplier or rectify. Meeting minutes — Supply Management , Eliminate supplier — International Purchase; Rectify — All Plants/BU Supply Management follow up, BU Purchase support.	International Purchase/ Supply Management/ All Plants Supply Management/All Plants Purchase
Verify Stage	Verify (NO → Eliminate; YES → Supply normally)	All Plants/BU verify the improved component, request which need verify OK 5 times	All Plants Supply Management
Recover Supply	Supply normally		
Liquidation Stage	Liquidation	Eliminated supplier liquidation account	Supply Management/ All Plants Supply Management/Financial Sharing Center/Quality Assurance Center

Goodbaby International has developed a deep collaborative relationship based on mutual trust with its key suppliers. Over the years, the Group has recommended and transferred technical skills as well as management know-how to more than 105 suppliers, helping many of them to achieve breakthroughs in their production processes. In 2021 alone, zero defect agreements were entered into with 210 PRC-based suppliers, embodying the consensus of both parties on uncompromising quality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition to attaching particular importance to product quality and responsibility, we have always borne in mind our role in conveying the value of sustainability in the value chain. Prior to the outbreak of COVID-19, the annual supplier conference we hosted offered an excellent opportunity to conduct supplier training on various quality-related topics and to share our practices across a wide range of areas, including in intellectual property protection, labour standards, environmental conservation, business ethics, and occupational health and safety. In the last two years of COVID-19, we have maintained constant point-to-point contact with our suppliers, reinforcing our requirements and rendering guidance virtually and in writing.

Case study: Support for the industry in Pingxiang

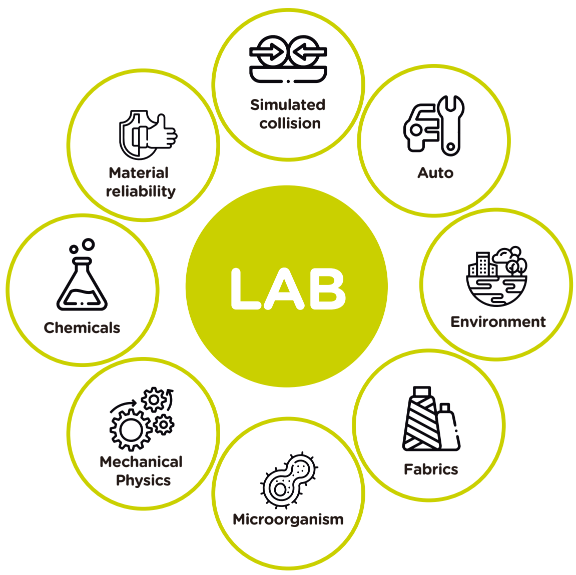
At the heart of our corporate value is the spirit of service to the community. Goodbaby International's production base in Pingxiang, the PRC, has created local employment opportunities and supported up to 60 suppliers within a radius of 20 kilometres. Since its development 10 years ago, the juvenile products industry in Pingxiang has posted scalable growth. Goodbaby's suppliers, in particular, have earned much recognition in the industry for their high product quality, and seen robust development in their own businesses.

DEVELOPING OUR TESTING CAPABILITIES TO THE FULLEST

Goodbaby International's enterprise standards and quality system depend on its well-equipped and powerful testing laboratory. After years of expansion, the laboratory is recognised as the most professional and comprehensive testing and certification awarding institution in the field of juvenile products worldwide. Holding the laboratory qualification of the China Compulsory Certification System, it is also the laboratory partner of CCAP, CQC, CCLC and related compulsory product quality certification awarding bodies, and is accredited by the U.S. Consumer Product Safety Commission and the body of EU child safety seat standards.

Our laboratory has world-class collision simulation testing technology, and shares its testing data in real time with authoritative institutions across the globe. Testing reports are automatically generated, conforming to the standards stipulated by the national laboratories of the U.S. (MGA) and of Germany (DEKRA). The laboratory has also developed over 2,500 testing capabilities for toxic and hazardous substances, and established 360 environmental testing capabilities for water, gas, sound and soil.

Major testing categories of the laboratory



Our testing capabilities at the laboratory span across eight major categories, namely car crash simulation, auto parts testing, chemical testing, mechanical and physical testing, fabric testing, environmental testing, material reliability testing and microbial testing. It is the only dynamic laboratory in the industry for strollers that can perform an array of tests in an environment between –20°C and +70°C. It fully meets the testing needs of building Goodbaby's entire product family, from prototype design and trial through to mass production.

Prior to any product launch, each of Goodbaby International's products is required to go through as many as a hundred tests from four perspectives (as shown in the figure below). While safety testing is a basic test for regulatory compliance, reliability testing is to assure product durability and reliability. QR testing offers an all-round examination based on the characteristics of each individual product, and 3F testing helps examine how well of product function and user experience are integrated.

Four types of testing undertaken by Goodbaby International's own brand products

Safety testing	Compliance with national and international product standards
Reliability testing	Product durability and reliability
QR testing	Individual products' own testing indicators
3F testing	Customers' unboxing experience, encompassing the touch, look, and smell of the product. Product details support customer experience

In 2021, the Group's laboratory accomplished three major achievements as follows:

I Accredited as an Australian standard testing body	II Aviation child seat standards and testing	III Intelligent consumer experience simulation technology
The only laboratory in the PRC equipped with the CRS Australian standard testing qualification	Application submitted to the Standardization Administration of The People's Republic of China for approval	First in the world
Able to test 24 Australian/New Zealand child safety seat-related standards	Entrusted by the China Academy of Civil Aviation Science and Technology to develop the national standard of Child Restraint Device on Board and provide testing verification for aviation child seats	Simulation of consumers' actual usage environment and road conditions, covering more than 10 different situations for the latter. The system, which will automatically collect and analyse simulation results for report generation, can help identify circumstances that are difficult to uncover by traditional testing methods, such as the impact of noise and dust on certain functions in some usage scenarios

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


World-class test lab

Patent Certificate


ISO/IEC 17025 认可证书

名称：亿科检测认证有限公司

地址：昆山市陆家镇陆丰东路 28 号

注册号：CNAS L4423

中国合格评定国家认可委员会

认可依据：ISO/IEC 17025:2017 以及 CNAS 特定认可要求

认可证书附件

生效日期：2021 年 10 月 27 日　截止日期：2022 年 07 月 24 日

附件 3　认可的检测能力范围

序号	检测对象	项目/参数 序号	项目/参数 名称	检测标准（方法）	说明	生效日期
12	儿童约束系统	1	部分参数	澳大利亚/新西兰标准儿童约束系统 AS/NZS 1754-2013	不测：3.11.5 织物衬垫的抗咬性，3.11.6 金属	2021-10-27

第 74 页 共 115 页

CNAS Certificate

STRENGTHENING A QUALITY CULTURE

A culture of quality has been instilled within everyone at Goodbaby International. The Group has laid out a clear job charter and KPIs, provides a remuneration structure pegged to quality, holds regular quality publicity and training, and maintains over 10 quality-related staff awards, all of which have proved effective at creating a distinctive corporate quality culture among employees.

Our stringent product quality management has also been embodied in our product descriptions, as we ensure that the information and data on the labels tally with actual situations and meet all applicable laws and regulations of various countries and regions.

Goodbaby International has stood the test of time for its product quality over the years, and has earned a corporate reputation for zero product recall for the fifth consecutive year.

PART 6: CUSTOMER DEMANDS ENABLE CREATIVITY AND INNOVATION

Goodbaby International's customer-centric principle lies behind its systematic efforts to understand user needs and measure user experiences, and drives its curiosity about alternative materials and technology and its passion for continuous product innovation – a sustainable pathway shared with the Group's stakeholders.

CUSTOMER RELATIONSHIP BUILDING

CONSTRUCTIVE ENGAGEMENT

The Group's commitment to providing consumers with high quality products and services is vindicated in our consumer interactions at every stage, from pre-sales right through to after sales. We have independent and agent-operated customer communication channels, including customer service hotlines, emails and apps, in all our major markets around the world. All customer enquiries are logged and duly dealt with. In the PRC, customer feedback is presented to our quality and product design departments in monthly reports, which form an important source of input for product enhancement. Recurring queries trigger discussions on related improvements to standards. From feedback generation, issue analysis to production or standards upgrades, a healthy interactive cycle is groomed.

The Integrated Product Development (IPD) model that the Group has cherished over the years manifests the essence of customer value. It allows customers to feedback their experiences based on their close involvement in various business processes, including product design, manufacture and sales services, where they test to use the products. Participating customers are recruited on a voluntary basis through various channels. Valid comments and concerns are funneled into the Group's database which also contains sector know-how and market intelligence, including specs of defects from peer recalls. As some of the most critical product design decisions are data-dependent and intelligence-informed, the "voice of customers" has proved to be a robust tool in our product development process. A total of 149 new products were backed by this model in 2021.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case study: New distribution + retail model to better serve consumers

In the PRC, through a network of 35 service centres, we provide a nationwide product warranty and deliver our free product return promise, a commitment that we first made among all peers in China and have continued to honour.

Rising Internet usage brought consumers and manufacturers significantly closer. The way we market and sell in the PRC has evolved into "distribution plus retail" mode, a brand-new retail ecosystem that puts "user experience first" and provides consumers with a connected, heartful and experiential platform for quality living.

As at 31 December 2021, this platform had more than 23 million registered members. In addition to providing basic content such as parenting and healthcare tips, the platform also offers new product promotions and after-sales services, bringing together online and offline retail services for different consumer groups. This new mode enables us not only to respond to customers more quickly and provide more effective services, but also allows us to include "last mile" on-vehicle safety seat installation and make-to-order services to meet increasing consumer demand for personalised products.

We assess consumers' willingness to engage, and we respect and protect their privacy. In fact, we have designed the platform as such that they have the right to choose the type of information they receive from us and its frequency of our reach-out initiatives.

COMPLAINT CHANNELS

With regard to product and service complaints, the Group operates a global consumer complaint management system that covers complaint logging, handling, and problem solving. Designated personnel follow up and ensure each case is solved to the customer's satisfaction within a specified timeframe. Cases that meet the terms and conditions of our product exchange policy are usually closed upon receiving the returned product in seven days' time. In 2021, our customer satisfaction survey conducted in the Americas showed that 82% of the respondents were satisfied with the products of the Evenflo brand. During the year, the Group did not record any material cases of product or service-related complaints.

The manufacturing operation in the PRC take the sales and marketing function of our various brands as its internal customers. In this respect, we also conduct customer satisfaction survey internally on an annual basis in accordance with our Customer Satisfaction Control Procedures and Customer Satisfaction Evaluation Procedures. The survey covers eight areas, including product safety, product appearance and timely delivery. In 2021, our China manufacturing operations were rated 87.2 points, up from 86.1 points in 2020 and 85.3 points in 2019.

PRIVACY PROTECTION

In the course of production and operation, particularly when coming to the provision of services to consumers, the Group attaches great importance to the protection of personal data and privacy. We have in place an *Information Security Policy* that complies with all applicable laws and regulations of the countries and regions in which we operate, such as the Cyber Security Law of the People's Republic of China and the European Union General Data Protection Regulation. Besides receiving regular on-the-job training, employees who handle consumer affairs and other confidential information are required to undertake annual training courses on relevant information security laws and regulations as well as customer privacy protection. Access restrictions have been set in our IT systems to protect data and information related to customers. Authorising one-off access and the sharing of customer information and data are performed strictly on an as-needed basis. In 2021, the Group received zero complaints regarding its personal data and privacy practices.

R&D INNOVATION CAPABILITIES

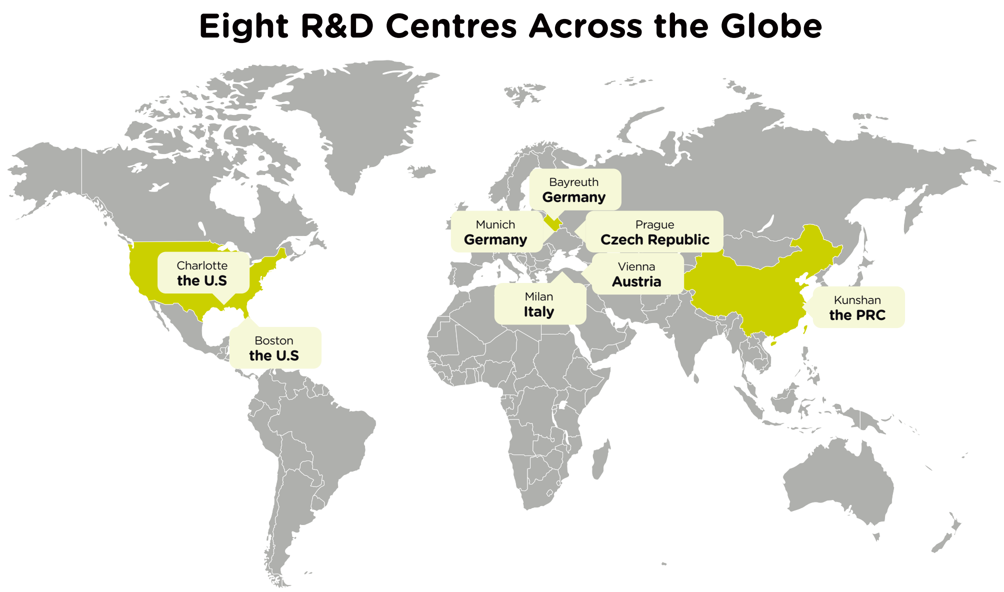
Following 32 years of development, the Group currently operates eight R&D centres, located in Europe, the PRC, the U.S. and Japan, with annual R&D investment being maintained at around 4% of sales revenue. As at the end of 2021, the Group's yearly R&D expenditure stood at HK$542 million (RMB450 million), and it had a design and R&D team of over 450 people. The Group's R&D operation is complemented with a network of global R&D resources that enable its team to keep abreast of the most advanced technologies and to work in partnership with the best talents in the world. We aim to develop targeted product features that appeal to consumers in specific regional markets, based on local scenarios.

To date, the Group has applied for a total of 11,765 patents, and cumulatively holds 788 valid invention patents and 1,717 registered trademarks (853 in the PRC and 864 internationally). Together, these form a database relating to topics in infant physiology, psychology, medicine, ergonomics and CMF (colour, materials and surface treatment).

During the reporting period, the Group brought to court three invention patent infringement lawsuits in relation to gb POCKIT strollers. All were ruled in our favour, and penalties totalling RMB2 million (approximately HK$2.4 million) were imposed on the defendants.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

R&D centres by geographical region



In 2021, the Group applied for 531 patents, including 122 invention patents and six international patents (PCT). A total of 405 patents were granted, including seven international patents. Both the gb brand's POCKIT Go folding stroller and the POCKIT ARMOR folding safety seat won the Red Dot Design Award in Germany. The latter also took home the iF Design Award in Germany for the fifth year. Furthermore, the POCKIT GO folding stroller clinched the G-mark GOOD DESIGN Award – Gold Award as well as BEST 100 in Japan, while Evenflo Revolve rotational car seat Apollo rotational car seat also garnered the 2021 JPMA Innovation Awards – Best in Show Award in the U.S.

gb POCKIT GO (folding stroller)	gb POCKIT ARMOR (folding safety seat)	Evenflo Revolve rotational car seat
Red Dot Design Award in Germany G-mark GOOD DESIGN Award – Gold Award in Japan G-mark GOOD DESIGN Award – BEST 100 in Japan	Red Dot Design Award in Germany iF Design Award in Germany	JPMA Innovation Awards – Best in Show Award in the U.S.

In 2021 three CYBEX safety seats were tested by independent consumer testing organization Stiftung Warentest together with the leading European automobile club, the German ADAC. Testing categories span from safety, handling, ergonomics, hazardous substance content to workmanship and ease of cleaning. In the test, the CYBEX Pallas G i-Size became test winner in the category of “safety seats for infants and children aged 1-12”. The Solution S i-Fix topped the list in the category of “safety seats for children aged 4-12”. In the October test, the Sirona X2 i-Size was awarded best in class in its respective age group.

CYBEX Palls G i-size

CYBEX Solution S i-fix

PRODUCT INNOVATION AND UPGRADE

Adhering to its principle of protecting children’s safety, Goodbaby International’s R&D team regularly integrates new technological advances, especially in environmentally friendly materials, into its next-generation products. Recycled plastics and fabrics are currently under development for child safety seats, in response to the expectations of stakeholders including governments, regulatory bodies, consumers and investors.

In 2021, the Group achieved phased breakthroughs in the new sphere of smart babycare products, elevating parenting experience to a whole new level. The PRC R&D team integrated baby cry detection technology into cribs, and applied bio-information and sensing technology to cushions and other products. Intelligent recognition technologies based on signs and movement characteristics of infants were applied to a series of parenting products, reducing potential hazardous situations and giving parents peace of mind and greater ease in their parenting lives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition to new product development, Goodbaby International is also highly aware of society's expectations for the more efficient use of natural resources by enterprises, and has carried out studies on various environmentally friendly alternative materials. The platinum and gold collections of both CYBEX and Evenflo, the Group's two major brands, have made significant advances in the application of eco-friendly materials.

After first experimenting with recycled fibre fabrics made from Repreve recycled plastic bottles in 2020, the CYBEX brand advanced into its next phase of applying recycled fibres to six different products in the CYBEX by Karolina Kurkova Collection. In 2021, CYBEX pushed for the replacement of certain plastic components with environmentally friendly materials and reduced the number of parts in some of its products by optimising the design and process, resulting in a significant increase in the proportion of environmentally friendly materials used. Concurrently, CYBEX kicked off preparations to apply for certification for the adoption of sustainable materials, including Forest Stewardship Council certification.

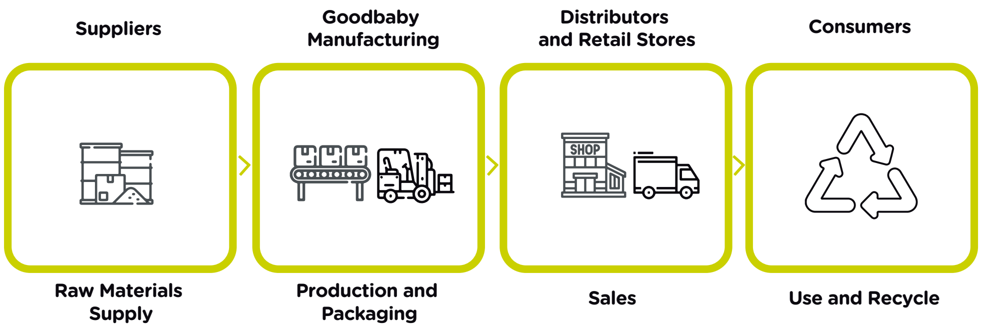
Likewise, in 2021, the Evenflo brand launched reviews of the design, materials and packaging of a number of its product lines with a view to increase the sustainability feature of the products. Through design optimisation, both the Nurture 2.0 and NextGen Booster safety seats put on the market in 2021 contained 70% fewer stabilisers, while the number of their parts was reduced from 50 to 42, their disassembly time was cut by 40%, and their weight by 3%. These improvements have significant implications in terms of quality and safety management efficiency, as well as energy reduction in shipment and throughout the product life cycle. Evenflo has also completed its development of gold collection products using Green & Gentle eco-friendly fabrics, and a related launch programme is planned for 2022.

PART 7: ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION DRIVE ECO-FRIENDLY PRODUCTS

ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION IN THE PRODUCTION PROCESS

Ten years ago, Goodbaby International embarked upon its green journey to explore the transformative potential of sustainable development primarily from three main areas: energy conservation and emission reduction, alternative materials and packaging, and supply chain. As the threat from global climate change aggravates, governments are seen to have quickened their pace of introducing national legislation and regulations on carbon emissions. The Group is working to build its climate resilience with a view to eventually neutralising the environmental impact from its business activities and products throughout their life cycle.

The Group is committed to enhancing efficiency of energy and natural resources usage, as a vital step in reducing pollutants and carbon emissions and cutting down waste from operations. We aim to deliver eco-friendly products by creating a greener production process. As shown in the illustration below, our key production process starts with raw material procurement, followed by the processing of multiple components and final product assembly, before the products are packed and shipped to warehouses for distribution and to retail stores for customer purchase.



The Group's environmental commitment is also reflected in its targets to upgrade production facilities to relevant ISO standards. As at the end of 2021, all three PRC production bases PRC were fully ISO 14001 and ISO 50001 certified.

Led by the Chief Executive Officer and taken charge by the ESG Working Group, projects were launched in each of our three home markets at the beginning of 2021, with dedicated personnel responsible for specific outcomes. In the PRC, of 19 proposed environmental initiatives, seven were launched following approval of feasibility studies. In the U.S., two of five initiatives were approved and launched.

The PRC	Reduce water consumption in office areas and restrooms Reduce energy consumption; 100% switch to LED lighting Update the Group's vehicle usage guidelines to reduce use of diesel Update user rules for office printing; implement follow-me-print Bayreuth HQ to introduce source separation for waste disposal Workplace environmental protection activities: say no to bottled water; clothing recycling Reduce CO_2 emissions by 10% for inbound freight
The Americas	Install occupancy sensors in assembly areas, office areas and restrooms Turn off lighting next to searchlights in cargo working areas

Over the past three years, the Group has successfully met its annual targets for reducing electricity and water consumption intensity. In 2021, the Group laid down an annual intensity reduction target of 5% for electricity and water consumption respectively. With the COVID-19 pandemic easing intermittently during the year, the Group managed to achieve a revenue growth of 16.70% year-on-year and yet total energy consumption was almost flat when compared with the previous year and electricity consumption intensity fell by 12.83%.

↓ **12.83%** Electricity consumption intensity

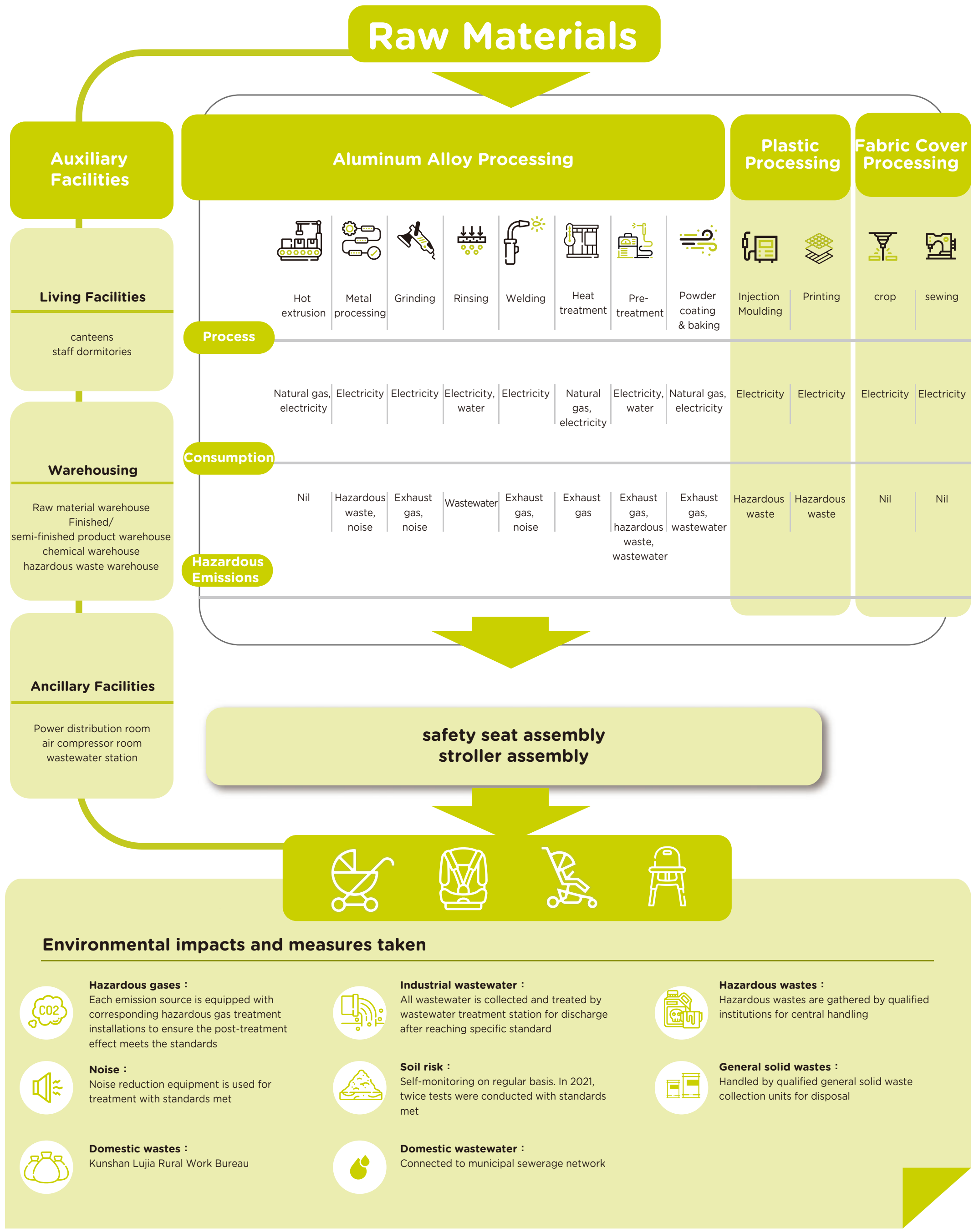
↓ **6.00%** Water consumption intensity

↓ **28.90%** GHG emissions intensity

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL IMPACT OF THE PRODUCTION PROCESS

Most of the child car seats, strollers, baskets, daily necessity products and toys manufactured by the Group are primarily composed of plastic parts, fabrics and metal structural parts such as aluminium. Consequently, our production process encompasses plastic processing, metal processing, fabric cover sewing as well as product assembly. In the PRC, there are auxiliary facilities including warehouse power generators, wastewater treatment stations, and employee canteens and dormitories.



The processing of aluminium alloy and of plastic consumes a large proportion of total energy consumed by the Group and produces most of the treated emissions. The diagram above illustrates energy consumption and emission types.

Energy demand in the production process is mainly for electricity. Certain processes use natural gas and most of the processes use water, drawn from the municipal water supply. In aluminium alloy processing, hazardous gases such as sulfur oxides, nitrogen oxides, dust and sulfuric acid mist are generated incidentally during certain sub-processes including sanding, welding, heat treatment, pre-treatment and coating. In the course of plastic processing, volatile organic compounds are produced during the sub-processes of injection moulding and printing. Hazardous gas emission sources are managed in closed environments equipped with corresponding gas treatment devices, to ensure that the treated gases conform fully to the emission standards and requirements of the countries and regions where we operate. In the PRC, we have a set of *Exhaust Gas Management Regulations* formulated according to national laws and regulations. In the Americas, our production activities comply fully with the relevant requirements of the Environmental Protection Agency of the U.S. and the Ministry of Environment and Natural Resources of Mexico.

After undergoing a heavy retrofit of the exhaust gas treatment installations at the coating line, the Group's Pingxiang production base in the PRC operated well in 2021. Renovation of the exhaust gas treatment installations at the coating line in the Kunshan production base has also been completed, and is expected to go into service in 2022.

All exhaust gas emissions met regulatory standards

Types of Exhaust Gases	Unit	2021	2020	2019
Nitrogen Oxides (NO_x)	Tonnes	0.62	0.85	n/a
Sulfur Oxides (SO_x)	Tonnes	0.12	0.60	0.30
Particulate Matters (PM)	Tonnes	1.00	0.92	1.49
Volatile Organic Compounds (VOCs)	Tonnes	0.8	–	–

Note: Since VOCs are regulated as hazardous gases, this report adds disclosure of VOC emissions.

The demand for water in production comes mainly from rinsing and pre-treatment in metal processing, but water consumption for these activities accounts for a mere 1% of the total volume of water consumed by the Group. The Group's primary water consumption is from staff dormitories and canteens located at the production bases in the PRC.

The Group's PRC production bases are the primary source of wastewater generated by the production process. We have formulated a set of *Wastewater Management Regulations* in strict accordance with the applicable laws and regulations of the country. All industrial wastewater generated is collected and conveyed to the wastewater treatment station at each production base for collective treatment to a specific standard, prior to final discharge. Having installed online water quality monitoring systems at the Kunshan and Pingxiang production bases in 2016 and 2020 respectively, the Group uses online devices for real-time measurement of water quality parameters such as chemical oxygen demand, ammonia nitrogen, pH value and flow rate, to ensure that the total volume and concentration of wastewater discharged meet the control requirements of the *Pollutant Discharge Permit* issued and approved by the government. The industrial wastewater produced by Ningbo production base is handled and monitored by a third-party professional wastewater treatment agency.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case study: Renovation of domestic sewage pipes at Kunshan park, the PRC

The Group's Kunshan facility is its main production base in the PRC. It is an older building, with an aged underground sewerage network that had become increasingly affected by corrosion over time. In 2021, to better manage and control wastewater discharge, a major renovation of the sewage pipes was conducted involving a total investment of around RMB1.4 million.

Water consumption and wastewater discharge

Water Consumption	Unit	2021	2020	2019
Water Consumption by Volume	Cubic Metres	827,467	742,829	876,019
Water Consumption Intensity	Cubic Metres/ Million Revenue (HK$)	84.08	89.44	99.81

Types of Pollutants	Unit	2021	2020	2019
Chemical Oxygen Demand (COD)	Tonnes	0.67	0.26	0.47
Total Nitrogen (TN)	Tonnes	0.03	0.20	0.20
Total Phosphorus (TP)	Tonnes	0.001	–	–

Note: This report adds disclosure of total phosphorus emissions.

The hazardous wastes produced during the production process comprise mainly waste emulsion, waste mineral oils, waste sulfuric acid, waste surface treatment liquid, retired containers for hazardous waste, waste activated carbon, and oily rags. For better disposal of such hazardous waste, the Group has laid down a series of policies and measures, which include the *Hazardous Waste Collection and Storage Management System* and the *Hazardous Waste Disposal Procedures* for its PRC bases, and has set up signs to identify classified storage spaces at designated locations. Qualified professional agencies are invited to safely collect the hazardous waste for decontamination, in accordance with regulations in different countries.

With the PRC's *Directory of National Hazardous Wastes (Version 2021)* coming into effect in 2021, Goodbaby International commissioned a professional organisation to help with the compilation of a *Report on Application for Hazardous Waste Code Changes,* with the purpose of aligning its internal control processes with the new edition of this directory. The Group has also appointed environmental protection experts to review the measures undertaken by its PRC business in response to the hazardous waste reclassifications.

Case study: Establishing new processes under new regulations

According to the revised list of hazardous wastes, oily metal chips are now classified as hazardous waste. The Group has therefore invested in equipment costing RMB85,000 that uses a centrifugal dryer and the briquetting press to separate the oil from metal chips. The waste oil is then treated as hazardous waste while the loose chips can be compressed and treated as general solid waste. This has not only reduced the generation of hazardous waste (by around 30 tonnes a year) but is also creating cost savings due to the utilisation of the scrap metal. The Group has also begun collecting oily rags (another new item in the hazardous waste list) for rehandling which has added approximately RMB130,000 to its annual disposal costs but has also reduced its hazardous waste by about 25 tonnes a year.

The Group also generates general solid waste throughout the production process, including waste metals, waste plastics, waste wood and waste packaging materials. Due to the particularity of these materials, the Group's PRC business recycles scrapped product parts according to its *Waste Management Regulations* and its *Waste Disposal Management Policy*. Of these, the crushed and scrapped waste plastics and leftovers are collected and melted into granules while the remaining non-hazardous waste items are passed on to qualified agencies for recycling. In the Americas, the production bases strictly conform to the environmental protection laws and regulations of the countries where they operate in handling such wastes.

Solid waste disposals

Types of Waste	Unit	2021	2020	2019
Hazardous Wastes	Tonnes	377	195	520
Intensity of Total Hazardous Wastes produced	Tonnes/Million Revenue (HK$)	0.04	0.02	0.06
Non-hazardous Wastes	Tonnes	1,686	1,662	2,203
Intensity of Total Non-hazardous Wastes produced	Tonnes/Million Revenue (HK$)	0.17	0.20	0.25

Types of Recycled Waste	Unit	2021	2020	2019
Plastics	Tonnes	707	704	611
Metals	Tonnes	767	780	828
Packaging Materials	Tonnes	1,315	1,431	778
Other Ancillary Materials	Tonnes	298	325	315
Total Volume of Non-hazardous Waste Recycled	Tonnes	3,087	3,240	2,532
Intensity of Total Non-hazardous Waste Recycled	Tonnes/Million Revenue (HK$)	0.32	0.39	0.29

In the PRC, in addition to self-monitoring of various environmental emission indicators, Goodbaby International also engages professional environmental assessment agencies to conduct annual or semi-annual routine inspections.

In relation to KPI A1.6 in the ESG Reporting Guide,taking into account that the standards and codes of hazardous waste have been changing from time to time, such as during the year ended 31 December 2021, in different countries the Group operates, we consider it not practicable and meaningful for us to set quantitative reduction targets for hazardous and non-hazardous wastes. Notwithstanding that, during the year, the Group has continued to endeavour and invest in the the safe handling and reduction of both hazardous and non-hazardous wastes as mentioned above, such as by engaging external experts and agencies to collect hazardous waste, advising and assisting the Group in improving and aligning the Group's internal control processes to comply with ever changing hazardous waste standards and codes, replacing old-age sewage facilities, establishing new production processes to reduce generation of hazardous wastes and continued taking efforts to recycle non-hazardous scrapped materials and collecting and handing over the remaining non-hazardous waste to qualified agencies for recycling.

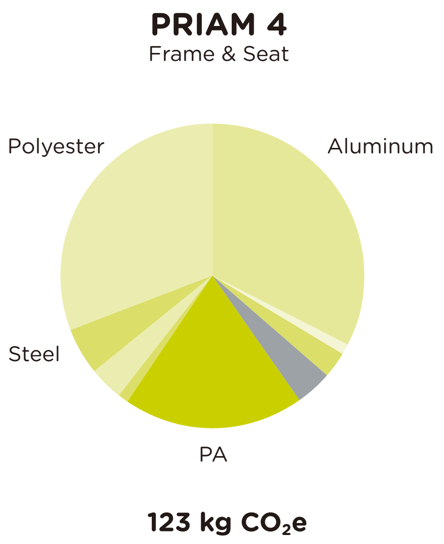
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

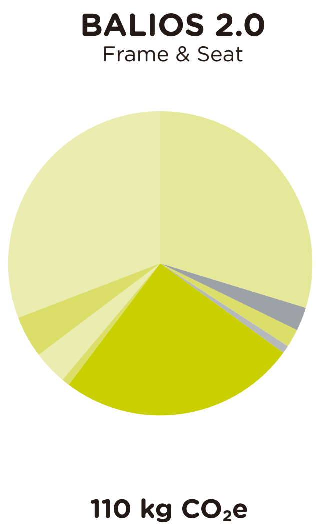
CLIMATE CHANGE AND GHG EMISSIONS

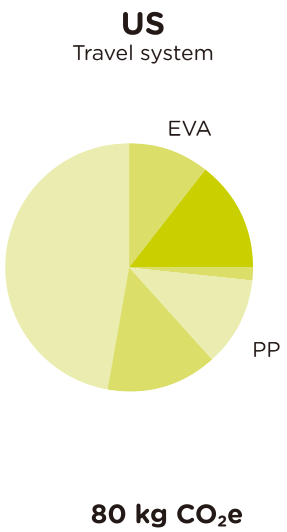
CLIMATE CHANGE RISKS AND THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) FRAMEWORK

In recent years, global warming has triggered frequent extreme weather events. Mitigating risks arising from climate disasters is high on the agenda of both governments and corporations worldwide. Goodbaby International has business operations in many countries, each facing a different climate challenge and having a different national climate policy. This presents complex risk profiles and opportunities for the Group's supply chain and sales operations. With reference to the *Guidance on Climate Disclosures* published by the SEHK, the Group is in the process of assessing the precise correlations between climate change and its worldwide business activities in order to identify both physical risks and transition risks, in the context of our strategic ambition and geographic coverage as well as climate policies and scenarios, with a view to establishing a model for undertaking a quantitative analysis of the potential financial impact of these risks. Concurrently, natural disaster emergency response plan of each production base was updated in 2021, putting in place a lock-in step framework combining risk analysis, decision making and contingency planning in the face of natural disaster, to protect company assets and most importantly the lives of our employees.

The Group has taken initiatives to map out the carbon footprints of its products, in order to establish the impact of its products on the environment in a holistic manner. For example, the top three carbon-intense materials identified in the CYBEX Priam4 stroller were polyester softgoods, polyamide and aluminium. Based on this finding, corresponding eco-friendly alternatives were identified to balance cost, functionality and environmental impact.







The GHGs generated from the Group's operating activities derive mainly from direct emissions from the use of gasoline, diesel, natural gas and liquefied petroleum gas (scope 1), and indirect emissions from purchased energy (scope 2). The sources for scope 1 and scope 2 emissions are listed in the table below:

Energy consumption

Types of Energies	Unit	2021	2020	2019
Unleaded Gasoline	MWh	615	1,339	945
Diesel	MWh	1,387	3,846	4,023
Natural Gas	MWh	12,119	8,208	15,324
Liquefied Petroleum Gas	MWh	129	82	94
Total Direct Energy Consumption	MWh	14,250	13,475	20,386
Purchased Energy	MWh	65,936	64,819	67,792
Total Indirect Energy Consumption	MWh	65,936	64,819	67,792
Total Energy Consumption	MWh	80,186	78,294	88,178
Energy Consumption Intensity	MWh/Million Revenue (HK$)	8.27	9.43	10.05

Notes:

1. *Diesel and unleaded gasoline consumption fell significantly in 2021 due to the removal of the figures for consumption of vehicles leased by the German business, which had been included in previous years' calculations.*

2. *The calculation of energy consumption is based on "How to Prepare an ESG Report Appendix 2: Reporting Guidance on Environmental KPIs" issued by the SEHK, and "Energy Statistics Manual" issued by the International Energy Agency (IEA).*

GHG emissions

GHG Emissions	Unit	2021	2020	2019
Direct GHG Emissions (Scope 1)	tCO_2e	4,140	2,983	4,349
Energy Indirect GHG Emissions (Scope 2)	tCO_2e	40,228	50,506	44,363
Total GHG Emissions	tCO_2e	44,350	53,489	48,712
Intensity	tCO_2e/Million Revenue (HK$)	4.58	6.44	5.55

Note: The calculation of GHG emissions is based on "How to Prepare an ESG Report Appendix 2: Reporting Guidance on Environmental KPIs" issued by the SEHK.

The replacement of diesel forklifts and the renovation of staff dormitories' hot water supply both contributed to offset the Group's direct GHG emissions. The Group's scope 1 emission sources include owned vehicles of 12 corporate cars, four 50-seater coaches used for staff commuting to and from Kunshan production base, one van, three trucks, and 10 diesel forklifts and eight LPG forklifts used in warehouses.

All production and other operating activities at the Group's five production bases use electricity, so improving the efficiency of electricity use and reducing scope 2 GHG emissions form an important part of the Group's sustainable development management. Electricity used for plastic processing in production accounts for more than 30% of the Group's total electricity consumption. Since 2017, the Group has gradually replaced all its 37 injection moulding machines. This major replacement exercise was eventually completed in 2020. The new machines are able to minimise energy waste by varying the power used according to the load.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2021, the Group's production bases in the PRC completed the upgrade of all its seven old air compressors, bringing down their electricity demand by 50%. One of the four air compressors in the U.S. was upgraded to a 150HP model for higher efficiency, leading to an approximate decrease of 30% in electricity consumption at the production base. Moreover, the PRC production bases launched plans to replace six S9 transformers of higher energy consumption in two years, and the replacement of two of these was completed during the reporting period. In 2021, the Group's U.S. production base joined the "Demand Response" initiative led by the North American Electric Reliability Corporation, which aligns demand with market supply conditions by appropriately shifting electricity usage during critical periods to off-peak times. This will lead to savings of approximately USD18,000 in electricity costs a year and will help ensure local power grid reliability. Furthermore, the U.S. base installed automatic shut-off devices for its grinders and upgraded its lighting systems in the parking lot and other areas, reducing electricity expenses by approximately USD27,000.

PACKAGING AND PACKAGING MATERIAL UPGRADES

The packaging materials used by the Group consist mainly of plastics and cardboard. During the reporting period, the Group implemented a new generation of packaging solutions for the CYBEX brand. In order to ensure that the products stay intact during transportation and offer customers a pleasant unboxing experience, the new packaging adopts a chic and minimalist design. The number of packaging parts for Sirona S safety seat of the platinum collection was trimmed down from 11 to three, and those for the Gold POCKIT series from 12 to four. The plastic foam filling materials used for cushioning were all replaced by moulded pulp cases, and plastic tapes were are substituted with paper ones. The outer shipping box is made of internationally certified acid-free renewable materials printed with soy-based ink. Product manuals now come with fewer print colours and a more compact layout, further reducing materials used.

While cutting down on products' packaging materials, the Group brought in a new concept of "zero waste", which is further elaborated and shared in the newly released product instruction.

Sample Case - Sirona S

Product packaging materials used

Types	Unit	2021	2020	2019
Plastics	Tonnes	1,992	1,727	8
Cardboards	Tonnes	21,344	17,454	1,500
Total Product Packaging Consumption	Tonnes	23,336	19,181	1,508
Intensity	Tonnes/Million Revenue (HK$)	2.41	2.31	0.17

ALIGNING WITH PARTNERS ON BUSINESS ETHICS AND CONDUCT

For many years, Goodbaby International has been promoting its ESG principles and business ethics with an emphasis on integrity both upstream and downstream in the industrial chain. The Group has established an evaluation system with 20 specific criteria covering the areas of comprehensive environmental management, environmental violations and environmental complaints, to manage suppliers' environmental performance and help raise their awareness of environmental issues.

PART 8: STAFF DEVELOPMENT CHANNELS HARMONIOUS COMMUNITIES

In 2021, Goodbaby International set up management protocols to fight the ongoing COVID-19 pandemic in all three major business operations, in each case addressing specific local challenges. A coordination mechanism at the Group level ensured a safe environment for all employees who came to work.

In the PRC, we activated our cross-function emergency response mechanism, led by the Human Resources Department. Temperature detection machines were set up at the entrances to all factory areas. In addition, electronic health code and itinerary code systems were referenced, particularly for employees on business trips and visitors to our sites. At the same time, all goods imported were stored at transit depots for nucleic acid testing by professional agencies prior to their delivery to our factories.

Taking into consideration the specific COVID-19 situations in the Americas and Europe, the Group produced a staff handbook that laid out epidemic prevention principles and protocols, including temperature detection and ventilation measures at workplaces as well as new procedures for visitors and business travellers. Employees were also encouraged to get vaccinated and mask up, and to self-test twice a week.

RESPECTING AND PROTECTING THE RIGHTS AND INTERESTS OF EMPLOYEES

In line with the United Nations' advocacy of "Decent Work and Economic Growth" in the SDGs, Goodbaby International strictly abides by the labour laws and employment regulations of all the markets where it operates (please refer to Appendix I). We have laid down internal recruitment policies that reflect local conditions, for instance, Recruitment Procedures and Talent Recommendation Policy for the PRC, all of which recognize candidates' rights to fair employment irrespective of their race, religion, gender or marital status. We also pay special attention to avoiding the employment of under-age workers or allowing forced labour, through resolute precautions taken during the recruitment process for full-time, part-time and contract workers. Furthermore, the principal responsibilities of employees are set out in their employment contracts, and overtime working of employees is based on voluntary principle. We ask our suppliers to align with us in these undertakings.

Our Group has strictly complied with all laws and regulations regarding prevention of child and forced labour and so far no case of employing under-aged works or forced labour has been found in our Group.

STAYING ATTRACTIVE TO EMPLOYEES

The Group operates a target-oriented remuneration structure based on roles and responsibilities, that has proven effective over the years. Our compensation and welfare arrangements are competitive, and we offer a variety of insurance arrangements. Remuneration policies are reviewed and updated annually by the human resources departments in each of the Group's three home markets, to ensure we can effectively attract talent and maintain workforce stability.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group offers paid annual leave for employees and ensures that all enjoy their rights to marriage leave, compassionate leave, maternity leave and sick leave, according to prevailing local practices in each region. We foster a corporate culture of mutual respect and inclusiveness, and provide an array of channels for communication between management and employees. We ensure it is understood by all that inappropriate language, violence or harassment are not tolerated in the workplace. A whistleblowing policy, including protection for whistleblowers, has been put into practice. Every employee has the right to report any suspected or actual violation of company policies and procedures, in good faith and from the perspective of protecting their own interests.

Case study: Employees' Representatives Conference in the PRC

The Group has an internal policy protecting employees' basic interests including rights of participation, oversight and supervision. Revisions and updates to this policy are subject to discussions at the Employees' Representatives Conference or negotiations with employee representatives.

In the PRC, the Group signs and honours the "Collective Contract" and the "Special Collective Contract for Wages" in accordance with the law, and reports the fulfilment status of the collective contracts to employees annually.

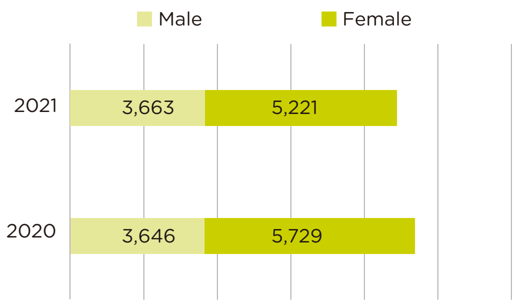
In 2021, approximately 10% of the Group's PRC staff participated in an employee survey in two parts. The first part covered company operations, job empowerment, dedication to one's post, benefits and rights, and communication, with questions presented in a multiple-choice format. The second part used open-ended questions to ask about execution, quality awareness and cost saving. In total, 88% of the respondents expressed satisfaction with the company. Areas of concerns included staff compensation and welfare, along with transparency in terms of information sharing and effective communication.

Through roundtables and seminars, employees were encouraged to raise constructive suggestions and actively participate in company affairs. In 2021, roundtable activities organised by the union generated a total of 67 pieces of feedback, of which 21 involved specific comments on career progression, skills training and potential safety hazard prevention. As at 31 December 2021, 16 items had been resolved and another five were being handled.

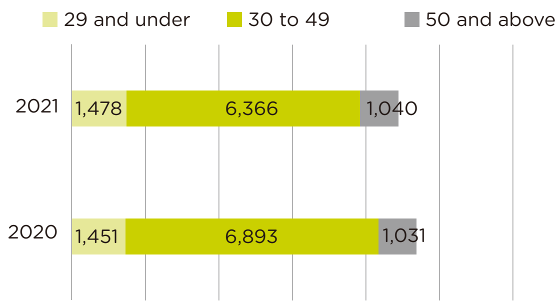
As at 31 December 2021, the Group had a total of 8,826 employees around the world, down by 549 from last year. This was mainly attributed to reduction in employees in the European operation on the back of the persistent pandemic. The number of employees on the production lines in the PRC and the Americas remained virtually unchanged. The Group's overall employee turnover rate was 35%. Although currently the Group has a higher proportion of male than female frontline employees, it hires staff without reference to gender and pays equal wages for the same work done by men and women.

Information on employee distribution by gender, age group, geographical region and employee category

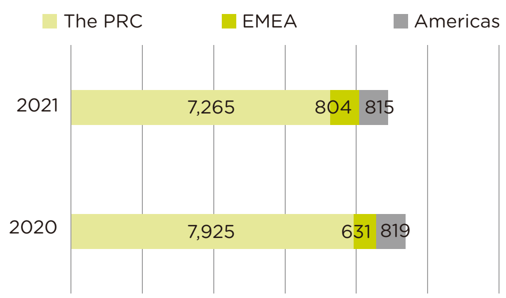
Number of employees by gender



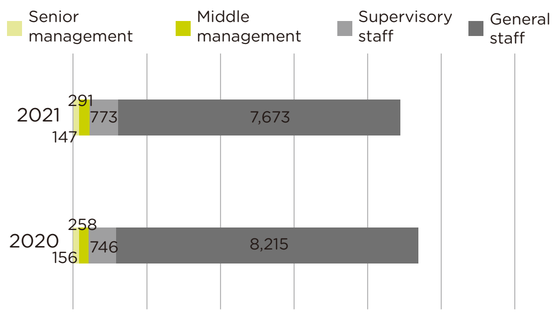
Number of employees by age



Number of employees by region



Number of employees by type



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employee turnover rate

Employee turnover rate	2021	2020
Male	34.26%	28.37%
Female	36.19%	31.08%
Aged 29 and below	68.85%	52.41%
Aged 30-49	29.82%	26.00%
Aged 50 and above	23.42%	17.71%
The PRC	32.22%	36.55%
Europe	18.67%	17.02%
The Americas	44.61%	32.82%

Number of employees receiving overtime allowances and average amount:

Total Overtime Allowance Amount (RMB'000)	Number of Employee Counts Receiving Overtime Allowances
81,147.03	47,633

ENABLING AND DEVELOPING EMPLOYEES

We value our employees and invest in training to raise their proficiency, competence and skills in multiple areas. We map out career progression and development plans, taking into account the different needs of our managerial executives and our frontline operators. We attach great importance to succession planning, particularly in nurturing the middle-level echelon who are shortlisted following the annual appraisal cycle to join fast-track training programmes.

In March 2021, the Group launched an employee empowerment programme in the PRC in a move to foster a learning culture within the organisation and increase employees' sense of personal value. The programme consists of four modules on newcomer integration, team leader capability-building, tailored personal capability development, and motivation and communication.

Newcomer Integration

- Standardise the induction management process
- Design integration and competency planning
- Provide corporate culture training

Team Leader Capability Building

- Deepen role recognition
- Improve planning and execution capabilities
- Enhance problem analysis and solving skills

Personal Capability Development

- Personal development planning
- Classroom learning alongside on-the-job trainings

Motivation and Communication

- Design annual communication theme(s)
- Step-by-step communication programmes, infiltrating the theme(s) into various communication platforms and channels, and maintaining efficiency of in-depth communication on all fronts

Case study: Vocational skills improvement project enhances of frontliner value

Our "three-in-one" vocational skills recognition programme, emphasising cultivation, evaluation and motivation, is a key component of the Group's people advancement ladder and is a booster for capable employees. In 2021, 389 employees passed the evaluation, including 54 technicians, 213 senior workers and 122 intermediate workers in three job types of assembly, sewing and cartographic drafting from six business units. Upon confirmation, the salaries of these individuals will be adjusted to reflect their newly certified level.

Case study: The Captain Programme – Building a management echelon

The Captain Programme is a leadership development project in the PRC, first launched in 2020. Its goal is to nurture a group of high-potential managerial candidates and equip them with agile thinking and organisational skills. Typically, younger "post-85s" and "post-90s" managers are selected for the programme. They will form a young talent pool with solid management calibre, problem solving focus and collaborative style. The programme's curriculum has been expanded to include assigning personal tutors for case study build-outs and apprentice projects, accessed online as necessary. Five workshops form an integral base for the programme: Evaluation Interpretation and Application, Agility in Business Planning, Building an Effective Team, Essence of Project Management, and Cross-functional Collaboration and Synergy.

The most recent Captain Programme was completed at the end of 2021. A total of 28 managers were selected for the programme, working in five virtual partnership groups. We look forward to seeing this first cohort applying the knowledge they have learnt for self-improvement and for building a more sustainable business for Goodbaby International.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case study: In the PRC, employees' needs drive training programme priorities

The Human Resources Department of our PRC operation conducts an employee survey at the beginning of each year, well before laying down its annual training plan, in order to identify key training needs. The results of the survey are important for planning the scope of the training programme so that it best, balances business needs, performance results and organisational capacity. In 2021, the Department:

- Conducted annual interviews with business units, interviewing 22 departments to determine performance gaps, and better understand individual employees' career development needs and the future professional needs of functional departments.
- Analysed and compiled employees' personal development plans.
- Formulated a preliminary training plan and circulated it for feedback from respective units.
- Confirmed the year's training plans with detailed schedules and calendars.

Training structure for 2021: 70% learning through daily job, 20% learning from role models via peer interaction and 10% classroom professional knowledge learning.

Our Spark virtual learning platform, launched in 2019, effectively supplemented on-site training during the pandemic. The online courses in 2021 were further optimised to match the needs of people in primary roles and positions. As at the end of 2021, a total of 3,004 online courses were offered, up by 287 from last year. The number of employees taking part in online training throughout the year rose to 3,358, an increase of 9% compared with the previous year. During the reporting period, the Group also organised 206 classroom courses, attended by 1,775 participants who recorded a total of 24,024 training hours. Key training courses covered business topics such as technical skills, management systems and standards, safety management, and financial management for non-financial personnel, as well as social topics such as anti-domestic violence, parent-child relationships and female empowerment, among others.

Percentage of employees trained, and average training hours by gender

Employee training rate	Number of Employees Trained			Average Training Time (Hours)	
	2021		2020	2021	2020
	No. of Employees	Percentage	Percentage	Hours	Hours
Male Employees	1,896	52%	61.90%	18.7	95.8
Female Employees	2,396	46%	67.20%	22.7	241.9
Senior Management	25	17%	7.69%	7.0	12.6
Middle Management	35	12%	2.33%	5.4	47.4
Management	274	35%	2.82%	16.6	67.9
General Staff	3,960	52%	3.62%	22.4	197.3

Parenting activities @workplace

REINFORCING PRODUCTION SAFETY AND OCCUPATIONAL HEALTH

Goodbaby International makes production safety and occupational health an integral part of its overall quality management. In 2021, all of its three PRC production bases were certified for their implementation of ISO 45001 Occupational Health and Safety Management Systems. The Group also conducted an annual review of various safety management policies, including the *Safety Production Responsibility Policy, Safety Production Target Management Policy, Safety Risk Identification Evaluation and Control Management Procedures, Accident and Hazard Inspection and Control Policy*, and *Safety Alarm Management Policy*. Its production bases in the U.S. and Mexico abide by the relevant laws and regulations of the U.S. Occupational Safety and Health Administration and the Mexican Ministry of Labor and Social Welfare, respectively.

During the reporting period, there were no major production safety incidents or fatal accident, but 24 lost working days logged due to work-related injuries, a significant decline from (58) days in the previous year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case study: Continuous improvement in safety of production equipment and facilities at the PRC factories

Our China team looks for weak operational links that could contribute to accidents, and draws on their industrial experience to develop precautionary and preventive measures.

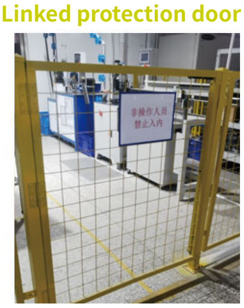
① Temperature alarms were installed in our environmental protection treatment facilities to check the internal temperature of the equipment in a timely manner. Dust collector pressure gauges were also installed to warn of abnormal pressure; these are directly interlocked with the main power supply so as to cut off power if required. If the precautionary measures fail or are out of order and the temperature goes beyond a pre-set limit, directly interlocked sprinkler systems are activated to cool off the casing or extinguish the fire. These preventive measures are significantly reducing the likelihood and the impact of accidents.

② Some of the original fire fighting pipes at Kunshan production base were laid underground and were difficult to repair if they leaked. In view of this, the Group invested approximately RMB3.7 million to re-route the piping system via overhead bridging. A new sprinkler system was also added to the storage facility for sensitive substances.

③ In view of the risk of clogging in the centralised dedusting system, which is shared by a number of grinding and buffing machines, the Group procured single integrated grinders so that each operator cleans up the dust from individual machines daily. Each integrated grinder is equipped with safety devices, including a hydrogen alarm, a water alarm and a pressure alarm. Together they eliminate the potential for a large-scale fire or explosion that could be caused by dust blockage in the central dust collector.

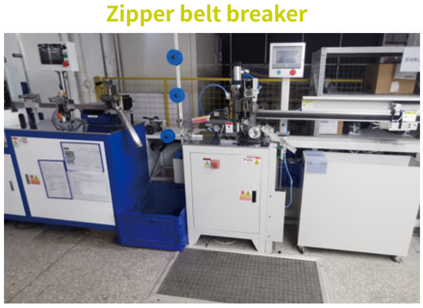
④ The engraving and milling equipment for metal processing produces metal chips that fall on the ground nearby; at the same time, the operator's body could come into contact with the miller cutter before the operation is terminated. To avoid this potential safety hazard, we set up a protection fence for the engraving and milling machine as well as safety gates to the area. We also revised our operation manual to introduce dual-hand button control procedures. These safety improvement measures are reducing the chance of accidents and injuries.

Linked protection door



Linked protection door: Installing linked protection door(s). All equipment will automatically stop running when the linked protection door is opened.

Zipper belt breaker



Zipper belt breaker:

1. The original operation panel of equipment 1 is at the bottom and rear, and it is located at the top and front after improvement, and an emergency stop switch is installed.
2. The original operation panel of equipment 2 is at the bottom and rear, and it is located at the top and front after improvement, and an emergency stop switch is installed.
3. Laying pressure-sensitive blankets in danger areas. When someone stands in the danger area, the equipment automatically stops running.

Automatic threading machine

Automatic threading machine:

1. The original operation panel has no emergency stop switch, now an emergency stop switch has been installed.
2. Installing linked protection switch(es). When the protection panel is opened, the equipment will automatically stop running.

Fire drills and training

ALIGNMENT OF SUPPLIERS

Goodbaby International adheres to high standard labour practices, which encompass production and workplace safety and occupational health standards. We advocate such principles and share our experiences with suppliers and business partners at all times. In 2021, we further stepped up on these fronts by revising our Supplier Code of Conduct, clearly stating our stance and our expectations from suppliers with regard to workplace safety and occupational health as well as combating forced labour. Additionally, a supplier declaration mechanism on conflicts of interest was set up during the year, which is applicable to all direct and indirect suppliers and requires an annual update. These illustrate the Group's continuous efforts to combat all forms of corruption and build a sustainable industrial chain with supplier collaboration.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case study: *Supplier Code of Conduct* – Chapters on "Production Safety and Occupational Health" and "Anti-bribery and Corruption"

Production Safety and Occupational Health

- Comply with all applicable laws and regulations of the countries and regions where the Group produces products or provides services.
- Comply with all applicable labour laws and regulations of the countries and regions where the Group operates.
- Ensure all employees are hired on the basis of free will. Prohibit the use of child, forced or prison labour.
- Comply with all applicable laws and regulations concerning working hours and overtime compensation of the countries and regions in which the Group operates.
- Provide employees with reasonable wages and welfare on time and in compliance with the laws and regulations of the countries and regions in which the Group operates.
- Comply with all applicable discrimination laws and regulations of the countries and regions where the Group operates.

Anti-bribery and Corruption

- Not to offer or promise any personal or improper advantage to a third party directly or through an intermediary, for the purpose of obtaining or retaining a commercial or other advantage from the third party.
- Not to offer or accept bribes, arrange or accept kickbacks, and not to violate or cause its business partners to violate any applicable anti-bribery laws and regulations.
- Report on any potential and existing conflict of interest situations.
- Establish a grievance system for anonymous grievance, reporting and management.

Goodbaby International is committed to protecting the environment and partnering with suppliers that share a common sense of their social responsibilities. The Group reserves the right to terminate its the commercial relationship with suppliers that contravene the Supplier Code of Conduct.

CONTRIBUTING TO SOCIETY AND TO LOCAL COMMUNITIES

The Group serves hundreds of millions of young families with children across the globe. It is keen on partnering with public services involved with the wellbeing of families and communities, and being a positive influence to boost local prosperity in the countries and regions where it operates. This has also been one of the primary themes of the ESG Working Group since the beginning of 2021.

In Germany, the Group's CYBEX brand and Frauenhaus Bayreuth family hotel jointly organised a parenting activity in which parents and kids could spend quality time together.

The CYBEX brand team donated products to the Italian Red Cross in support of families affected by the wildfire disaster that ravaged Sardinia, Italy.

ITALIAN RED CROSS ACTIVITIES (REVIEW)

The Italian Red Cross has been responding to the wildfires in Sardinia since the beginning of the emergency, mobilising their local, regional and national resources, with about **250 volunteers and staff, 30 vehicles, 1 tanker (water), 6 ambulances** involved and providing the following services.

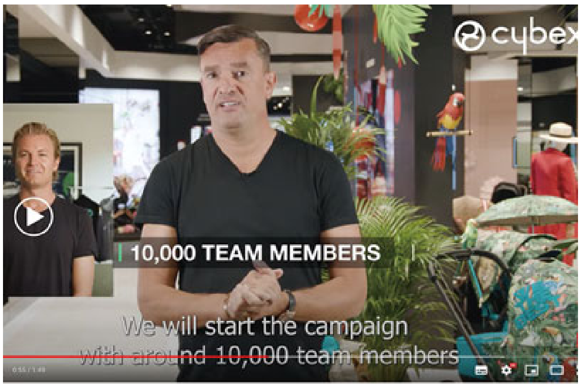
RXR TAKING ACTION:

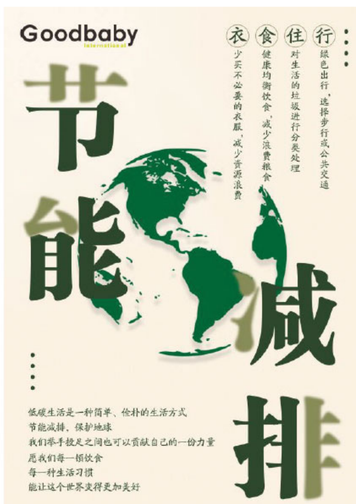
- Collaboration with the IRC in Sardinia, supporting a relief voucher system
- Over and above, this project aims to provide vouchers to the affected families which can be redeemed in local partner stores
- Focus on reconstruction / early recovery
- Reaching 200 families / about 600 people
- Nico visiting the Municipality of Santu Lussurglu to meet the Mayor and hand over a cheque with our donation & speak to an affected family

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GOODBABY INTERNATIONAL'S MEAT FREE MONDAY CAMPAIGN

The Group's Chief Executive Officer personally led the "Meat Free Monday" campaign. He reminded employees and others about the greenhouse gas emissions produced by modern industrial farming, and the overall impact of greenhouse gases on global warming. In addition, the PRC team organised a vegetarian day named "No Meat No Pain, Kids Come Without Delay", which leveraged social media check-ins to advocate green living and behaviour change.





In the PRC, Goodbaby International regularly takes part in local community activities and makes donations for disaster relief and other charitable causes. The Group's volunteering team members have been active for many years in the Kunshan region where its production base is located. In 2021, the team supported local festival activities and visited local cleaning workers. Throughout the year, a total of 264 people recorded more than 20,000 hours of community volunteer services.

Books nourish people's souls, drive civilisation, and inspire progress. In line with the "National Reading Spring Breeze Action" set up to promote reading habits and positive living during the lunar new year holidays, Lujia Library in Kunshan launched the "Bring a Good Book Home for the CNY" reading activity with book donations from our volunteer team.

From July to August 2021, our China colleagues took part in volunteer work for the 24-hour library in Gumuhe Children Fun Park in Lujia town, near the Group's Kunshan production base, helping with card swiping at the entrance, on-site crowd control, book sorting, and cleaning work.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Following the flood disaster in Henan in July, the Women's Federation of Goodbaby International made direct contact with the Henan Charity General Federation and donated RMB340,000 worth of maternal and childcare gift packs to designated maternity and children's hospitals in the region.

The Group has maintained a long and warm relationship with Kunshan, where it operates its largest manufacturing facility. In 2021, the Group donated RMB200,000 to Kunshan Charity General Association, and presented Goodbaby Educational Awards to teachers from the Kunshan Lujia Senior High School. It also donated RMB500,000 to the Lantu Foundation.

APPENDIX I. LIST OF APPLICABLE POLICIES AND LAWS AND REGULATIONS

Scopes	Applicable Policies and Laws and Regulations
Emissions Management	
	The PRC: • Environmental Protection Law of the People's Republic of China • Law of the People's Republic of China on Environmental Impact Assessment • 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 • Measures for Pollutant Discharge Permitting Administration (For Trial Implementation) • Laws of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise • Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste • Measures for Pollutant Discharge Permitting Administration • Regulations of Jiangsu Province on Atmospheric Pollution Prevention and Control • Measures for the Administration of Transfer of Hazardous Wastes (《危險廢物轉移管理辦法》) • Measures for the Administration of Permit for Operation of Dangerous Wastes • Regulations of Jiangsu Province on Prevention and Control of Environmental Noise Pollution • Regulations of Jiangsu Province on the Prevention and Treatment of the Environmental Pollution by Solid Wastes • Department of Ecology and Environment of Jiangsu Province: Notice on Strengthening the Monitoring and Management of the Current Situation of Environmental Impact Assessment (江蘇省生態環境廳《關於加強環境影響評價現狀監測管理的通知》) • Standard for Fugitive Emission of Volatile Organic Compounds (GB 37822-2019) • Measures of Jiangsu Province for the Administration of Prevention and Control of Volatile Organic Compounds Pollution (《江蘇省揮發性有機物污染防治管理辦法》) • Jiangsu Province: Volatile Organic Compounds Special Treatment Work Plan 2020 (《江蘇省2020年揮發性有機物專項治理工作方案》) *Germany:* • European Union Waste Framework Directive *The U.S.:* • U.S. Clean Air Act • U.S. Federal Hazardous Substances Act • U.S. Clean Water Act *Mexico:* • General Law on the Prevention and Comprehensive Management of Waste
Use of Resources	
	The PRC: • Energy Conservation Law of the People's Republic of China • Regulations of Jiangsu Province on Conserving Energy • Renewable Energy Law of the People's Republic of China • Cleaner Production Promotion Law of the People's Republic of China • Electric Power Law of the People's Republic of China • Regulations on the Protection of Power Facilities • Regulations of Jiangsu Province on Electric Power • Measures for the Administration of Electricity Conservation (《節約用電管理辦法》) • Water Law of the People's Republic of China • Regulations of Jiangsu Province on Water Resources Management (《江蘇省水資源管理條例》) • Regulations of Jiangsu Province on Water Conservation (《江蘇省節約用水條例》) • The 14th Five-Year National Clean Production Implementation Plan (《十四五全國清潔生產推行方案》) *Germany:* • Treaties of the European Union *The U.S.:* • U.S. Energy Independence and Security Act of 2007 • U.S. Energy Policy Act of 2005 *Mexico:* • National Water Law

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Scopes	Applicable Policies and Laws and Regulations
Employment	
	The PRC: • Labor Law of the People's Republic of China • Employment Contract Law of the People's Republic of China • Regulation on the Implementation of the Employment Contract Law of the People's Republic of China • Provisions of the State Council on Working Hours of Employees (《國務院關於職工工作時間的規定》) • Regulation on Paid Annual Leave for Employees • Implementation Measures for Paid Annual Leave for Employees of Enterprises • Provisions on Minimum Wages • Interim Regulations on Wage Payment (《工資支付暫行條例》) • Regulations of Jiangsu Province on Wage Payment • Trade Union Law of the People's Republic of China • Social Insurance Law of the People's Republic of China • Interim Regulation on the Collection and Payment of Social Insurance Premiums • Regulation on the Administration of Housing Accumulation Funds • Regulation on Work-Related Injury Insurance • Regulations on Unemployment Insurance • Regulations of Jiangsu Province on the Collection and Payment of Social Insurance Premiums (《江蘇省社會保險費徵繳條例》) • Interim Provisions on Labor Dispatch • Notice on Further Regulations on Issues Concerning Work-Related Injury Insurance for Labor Dispatching Units (《關於進一步規範勞務派遣單位工傷保險有關問題的通知》) • Special Rules on the Labor Protection of Female Employees • Special Provisions of Jiangsu Province on the Labor Protection for Female Employees (《江蘇省女職工勞動保護特別規定》) • Provisions on the Administration of the Employment of Foreigners in China • Interim Measures for the Participation in Social Insurance of Foreigners Employed in China • Provisions on Medical Period for Sickness or Non-Work-Related Injury of Enterprise Employees (《企業職工患病或非因工負傷醫療期規定》) *Germany:* • German Civil Code • Germany Minimum Wage Legislation • German Civil Law • German Labor Protection Act *The U.S.:* • U.S. Occupational Safety and Health Act *Mexico:* • Mexican Federal Labor Law

Scopes	Applicable Policies and Laws and Regulations
Workplace Environment and Occupational Health Management	
	The PRC: • Production Safety Law of the People's Republic of China • Administrative Measures for Work Safety Training • The Administrative Regulations on the Work Safety of Construction Projects • Interim Measures for the Supervision and Administration of "Three Simultaneities" for Safety Facilities of Construction Projects • Regulation on Emergency Responses to Work Safety Accidents • Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases • Measures for the Supervision and Administration of "Three Simultaneities" of Facilities for the Prevention and Control of Occupational Diseases of Construction Projects • Regulation of Jiangsu Province on Work Safety • Provisions on the Administration of Work Safety Supervision (《江蘇省安全生產監督管理規定》) • Regulations of Jiangsu Province on the Prevention and Treatment of Occupational Diseases (《江蘇省職業病防治條例》) • Notice of Jiangsu Provincial Safety Supervision Bureau on the Implementation of the "Measures for the Supervision and Administration of 'Three Simultaneities' of Facilities for the Prevention and Control of Occupational Diseases of Construction Projects" (《江蘇省安監局關於貫徹落實〈建設項目職業病防護設施「三同時」監督管理辦法〉的通知》) *The U.S.:* • U.S. Occupational Safety and Health Act
Prevention of Child and Forced Labour	
	The PRC: • Employment Contract Law of the People's Republic of China • Law of the People's Republic of China on the Protection of Minors • Civil Code of the People's Republic of China • Provisions on the Prohibition of Using Child Labor • Criminal Law of the People's Republic of China • Measures for Lump-sum Compensation to the Disabled or Deceased Employees of Entities Involving Illegal Employment • Opinions of the Jiangsu Provincial Department of Labor and Social Security and the Jiangsu Provincial Labor Dispute Arbitration Commission on Issues Concerning the Injury and Injury of Employees and Child Labor in Illegal Employment Units (《江蘇省勞動保障廳、江蘇省勞動爭議仲裁委員會關於非法用工單位職工和童工傷亡有關問題的處理意見》) *Germany:* • German Civil Code • German Civil Law

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Scopes	Applicable Policies and Laws and Regulations
Product Responsibilities	
	The PRC: • Trademark Law of the People's Republic of China • Regulation on the Implementation of the Trademark Law of the People's Republic of China • Provisions on the Determination and Protection of Well-known Trademarks • Copyright Law of the People's Republic of China • Regulation on the Implementation of the Copyright Law of the People's Republic of China • Patent Law of the People's Republic of China • Regulation on the Implementation of the Patent Law of the People's Republic of China • Anti-Unfair Competition Law of the People's Republic of China • Regulations of Jiangsu Province on the Promotion and Protection of Intellectual Property Rights (《江蘇省知識產權促進和保護條例》) • Product Quality Law of the People's Republic of China • Provisions on the Management of Enterprise Product Standards (《企業產品標準管理規定》) • Interim Measures for the Administration of Supervisory Spot Checks on Product Quality • Measures of Jiangsu Province on Provisions and Administration of Product Quality (《江蘇省產品質量監督管理辦法》) • Law of the People's Republic of China on the Protection of Consumer Rights and Interests • Regulations on Quality Responsibility for Industrial Products • Cyber Security Law of the People's Republic of China • E-Commerce Law of the People's Republic of China • Personal Information Protection Law of the People's Republic of China • Passport Law of the People's Republic of China • Law of the People's Republic of China on Resident Identity Cards • Advertising Law of the People's Republic of China • Provisions on the Scope of Necessary Personal Information Required for Common Types of Mobile Internet Applications • Regulations of Jiangsu Province on the Protection of Consumers' Rights and Interests *Germany:* • European Union General Data Protection Regulation *The U.S.:* • U.S. Patent Reform Act
Anti-Bribery and Corruption	
	The PRC: • Anti-Unfair Competition Law of the People's Republic of China • Anti-Money Laundering Law of the People's Republic of China • Interim Provisions on Banning Commercial Bribery Upon the Order of the State Administration for Industry and Commerce of the People's Republic of China • Measures of Jiangsu Province for the Implementation of the "Anti-Unfair Competition Law of the People's Republic of China" (《江蘇省實施〈中華人民共和國反不正當競爭法〉辦法》) *HKSAR, the PRC:* • Prevention of Bribery Ordinance

APPENDIX II. HKEX ESG REPORTING GUIDE CONTENT INDEX

Subject Areas, Aspects, Disclosures and KPIs	Description	Sections/Declaration
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.	Appendix I Part 7 > Energy conservation and environmental protection in production process
KPI A1.1	The types of emissions and respective emissions data.	Part 7 > Energy conservation and environmental protection in production process
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) GHG emissions in total (in tonnes) and intensity.	Part 7 > Climate change and GHG emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and intensity.	Part 7 > Energy conservation and environmental protection in production process
KPI A1.4	Total non-hazardous waste produced (in tonnes) and intensity.	Part 7 > Energy conservation and environmental protection in production process
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	Part 2 > Statement from the board Part 7 > Energy conservation and environmental protection in production process; Climate change and GHG emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken.	Part 7 > Energy conservation and environmental protection in production process
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Part 7 > Energy conservation and environmental protection in production process
KPI A2.1	Direct and/or indirect energy consumption by type in total (kWh in'000s) and intensity.	Part 7 > Climate change and GHG emissions
KPI A2.2	Water consumption in total and intensity.	Part 7 > Energy conservation and environmental protection in production process
KPI A2.3	Description of energy use efficiency target(s) and steps taken to achieve them.	Part 2 > Statement from the board Part 7 > Climate change and GHG emissions
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Part 7 > Energy conservation and environmental protection in production process
KPI A2.5	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Part 7 > Packing and packaging material upgrades
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Part 7 > Energy conservation and environmental protection in production process; Climate change and GHG emissions
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Part 7 > Energy conservation and environmental protection in production process; Climate change and GHG emissions

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, Disclosures and KPIs	Description	Sections/Declaration
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.	Part 7 > Climate change and GHG emissions
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Part 7 > Climate change and GHG emissions
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.	Appendix I Part 8 > Respect and protect the rights and interests of employees
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Part 8 > Respect and protect the rights and interests of employees
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Part 8 > Respect and protect the rights and interests of employees
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.	Appendix I Part 8 > Safeguard production safety and occupational health
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years, including the reporting year.	Part 8 > Safeguard production safety and occupational health
KPI B2.2	Lost days due to work injury.	Part 8 > Safeguard production safety and occupational health
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Part 8 > Safeguard production safety and occupational health
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Part 8 > Enabling and development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Part 8 > Enabling and development
KPI B3.2	The average training hours completed per employee by gender and employee category.	Part 8 > Enabling and development
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.	Appendix I Part 8 > Respect and protect the rights and interests of employees
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Part 8 > Respect and protect the rights and interests of employees
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Part 8 > Respect and protect the rights and interests of employees

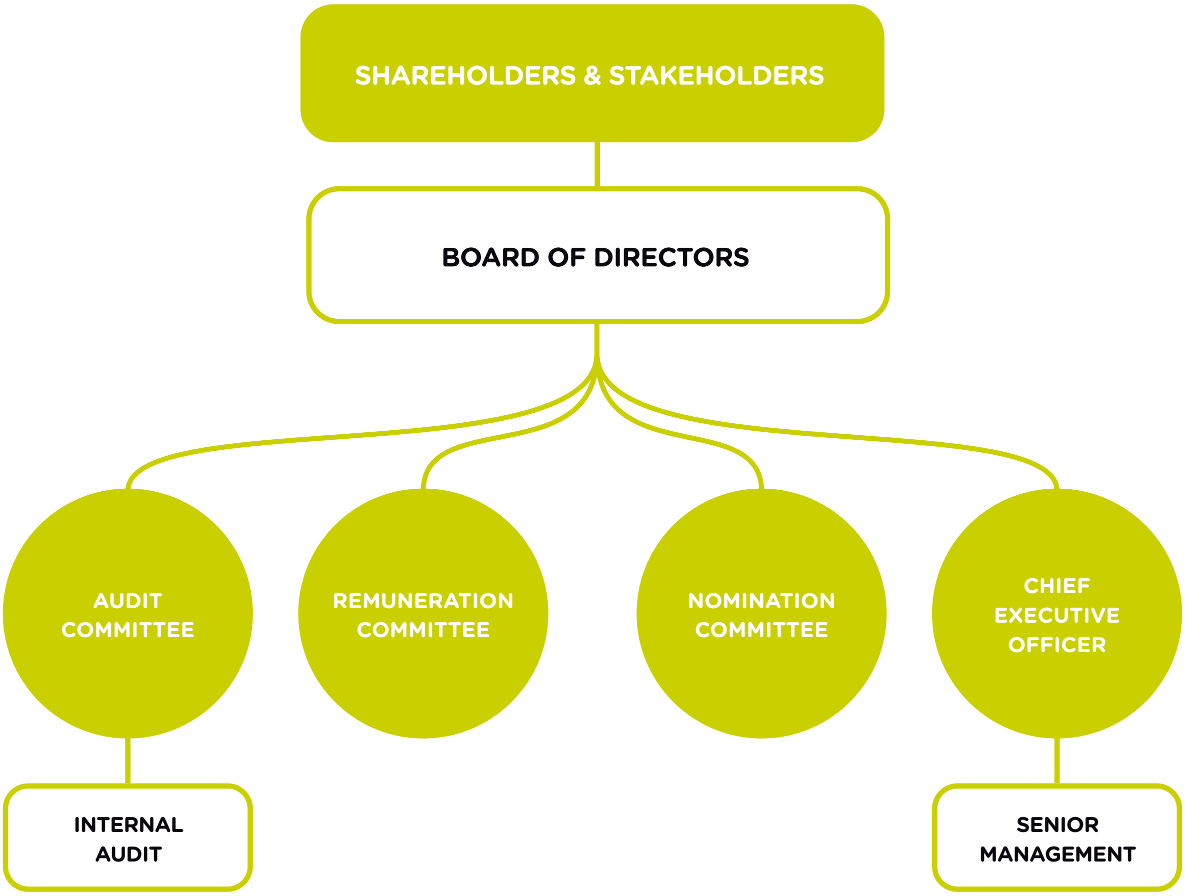
Subject Areas, Aspects, Disclosures and KPIs	Description	Sections/Declaration
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Part 5 > The cornerstone of safety
KPI B5.1	Number of suppliers by geographical region.	Part 5 > The cornerstone of safety
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.	Part 5 > The cornerstone of safety
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Part 5 > The cornerstone of safety
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Part 5 > The cornerstone of safety Part 7 > Packing and packaging material upgrades
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.	Appendix I Part 5 > The cornerstone of safety Part 6 > Customer relationship building
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Part 5 > Strengthening quality culture
KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	Part 6 > Customer relationship building
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Part 6 > R&D Innovation Capabilities
KPI B6.4	Description of quality assurance process and recall procedures.	Part 5 > The cornerstone of safety
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Part 6 > Customer relationship building
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.	Appendix I Part 4
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Part 4
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Part 4
KPI B7.3	Description of anti–corruption training provided to directors and staff.	Part 4
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.	Part 8 > Contributing to society and to local communities
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Part 8 > Contributing to society and to local communities
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Part 8 > Contributing to society and to local communities

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 2021. 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 2021, the Company has complied with all the code provisions and certain recommended best practices 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 2021, 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 2021. 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 2021, 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 2021 is set out in the table below:

Name of Directors	Hours of Training in 2021
SONG Zhenghuan	7
Martin POS	7
XIA Xinyue	7
LIU Tongyou	7
Michael Nan QU	7
FU Jingqiu	7
HO Kwok Yin, Eric	7
Iain Ferguson BRUCE	35
SHI Xiaoguang	7
CHIANG Yun	29
JIN Peng	7

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision B.2.2 of the CG Code stipulates that every directors, including those appointed for a specific term, should 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 2021 are set out in note 9 to the financial statements.

Pursuant to code provision E.1.5 of the CG Code, the remuneration payable to members of senior management by band for the year ended 31 December 2021 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 2021, 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 Director of the Company has been designated as the primary contact person at the Company which would work and communicate with the company secretary on the Company's corporate governance and secretarial and administrative matters.

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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.

Pursuant to code provision D.3.2 of the CG Code, a former partner of an issuer's current auditing firm shall be prohibited from acting as a member of its audit committee member for a period of two years from the date the person ceasing to be a partner or have any financial interests in such auditing firm. The Company has adopted a revised terms of reference of the Audit Committee to reflect the requirement since 14 December 2018 with an effort to keep abreast of the latest development of the CG Code.

The Audit Committee held two meetings on 22 March 2021 and 23 August 2021 respectively, to review the annual financial results and report for the year ended 31 December 2020, and interim financial results and report for the six months ended 30 June 2021 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 2021, 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 22 March 2021 to review and make recommendation to the Board on the remuneration policy and the remuneration packages of executive Directors and senior management for 2021 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 22 March 2021 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 maintaining 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. The Nomination Committee had conducted a review of the implementation and effectiveness of the board diversity policy in respect of the year ended 31 December 2021. In forming its perspective on diversity, the Company will also take into account factors based on its own business model and specific needs from time to time. Upon conducting its review, the Nomination Committee was of the view that board diversity has been achieved and the Board has an appropriate mix of skills, experience and diversity taking into factors such as gender, educational background, age, skills and experience of the Directors, which can be found in the "Directors and Senior Management" section of this report, in the context of the Group's own business model and specific needs from time to time.

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 2021 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 2021 is set out in the table below:

	Attendance/Number of Meetings in 2021				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meetings
SONG Zhenghuan	4/4	N/A	N/A	N/A	1/1
Martin POS	2/4	N/A	N/A	N/A	0/1
XIA Xinyue	4/4	N/A	N/A	N/A	0/1
LIU Tongyou	4/4	N/A	N/A	N/A	1/1
Michael Nan QU	4/4	N/A	N/A	N/A	0/1
FU Jingqiu	4/4	N/A	N/A	N/A	1/1
HO Kwok Yin, Eric	4/4	N/A	N/A	N/A	0/1
Iain Ferguson BRUCE	2/4	2/2	1/1	1/1	1/1
SHI Xiaoguang	4/4	2/2	1/1	1/1	1/1
CHIANG Yun	4/4	2/2	1/1	1/1	1/1
JIN Peng	4/4	N/A	N/A	N/A	0/1

Apart from regular Board meetings, the chairman also held a meeting solely with the independent non-executive Directors on 23 March 2021.

CORPORATE GOVERNANCE REPORT

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 2021. 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 136 to 140.

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; and
- 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 2021 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 2021, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company and its subsidiaries. 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 2021 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 unauthorized access and use of inside information are strictly prohibited.

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

EXTERNAL AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2021 amounted to HK$9,080,000 and HK$265,000 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 2021 is set out below:

Service Category	Fees Paid/ Payable (HK$)
Audit Services	9,080,000
Non-audit Services	265,000
• Transfer pricing documentation	265,000

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 2022 annual general meeting ("AGM") of the Company will be held on 23 May 2022. 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.

SHAREHOLDERS' COMMUNICATION POLICY

The Board has adopted a shareholders' communication policy made reference to the CG Code as contained in Appendix 14 of the Listing Rules at a board meeting held on 16 March 2014, which aims at establishing a two-way relationship and communication between the Company and its Shareholders and maintains a website at www.gbinternational.com.hk, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Information will be communicated to the shareholders through the Company's financial reports, annual general meetings and other general meetings that may be convened, as well as all the disclosures submitted to the Stock Exchange. The Board will review the Shareholders' communication policy regularly to ensure its effectiveness. The Board has conducted a review of the implementation and effectiveness of the shareholders' communication policy in respect of the year ended 31 December 2021 and confirmed that the policy has been implemented effectively.

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.

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

Putting Forward Enquiries to the Board

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

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

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

DIVIDEND POLICY

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

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

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

(1) financial results;

(2) cash flow situation;

(3) business conditions and strategies;

(4) future operations and earnings;

(5) capital requirements and expenditure plans;

(6) interests of shareholders;

(7) taxation consideration;

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

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

Report of the Board of Directors

REPORT OF THE BOARD OF DIRECTORS

The board (the "Board") is pleased to present their report and the audited financial statements for the year ended 31 December 2021 of the Group.

Goodbaby International Holdings Limited (the "Company", together with its subsidiaries, the "Group") 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 2021 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 115 of this annual report.

An analysis of the Group's performance during the year ended 31 December 2021 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 to 95 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 141 and page 142 respectively. The financial position as at 31 December 2021 of the Group are set out in the Consolidated Statement of Financial Position on pages 143 to 144. The cash flow of the Group during the year is set out in the Consolidated Statement of Cash Flows on pages 146 to 147.

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 2021 (2020: 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 at 4:30 p.m. on 17 May 2022 (Tuesday)

- Closure of register of members from 18 May 2022 (Wednesday) to 23 May 2022 (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 17M 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 2021, 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 attributable to the Group's major customers out of the Group's total revenue are as follows:

- the largest customer 10.1%
- five largest customers in aggregate 33.9%

During the year, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

As far as the Company is aware, at no time during the year that any of the Directors or his/her close associates or any shareholder which to the knowledge of the Directors own over 5% of the number of issued shares of the Company had 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$1,310,025.

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. Michael Nan QU, Mr. Iain Ferguson BRUCE, Mr. SHI Xiaoguang and Ms. CHIANG Yun will retire in the forthcoming annual general meeting. Except for Mr. Bruce, all of the above Directors, being eligible, will offer themselves for re-election at the Annual General Meeting. Mr. Bruce has decided to retire and will not offer himself for re-election at the Annual General Meeting. Mr. Bruce will therefore retire with effect from the ending of the 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 transaction, arrangement or contract of significance with any member of the Group as the contracting party and in which any Director or any entity connected with a Director was materialled interested, directly or indirectly, and which was still valid on the year end date or any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2021, 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 2021.

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) or any directors of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, will contribute or have contributed to our Company and/or any of its subsidiaries as described in the share option scheme) for their contribution to the Group for the purpose of motivating the eligible participants to optimise their performance efficiency for the benefit of the Group, and attracting and retaining or otherwise maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

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 did not grant any share options under the 2010 Share Option Scheme and the 2020 Share Option Scheme.

Under the 2010 Share Option Scheme, 2,400,000 share options were forfeited during 2021.

Under the 2020 Share Option Scheme, 2,199,333 share options were forfeited and 8,000 share options were exercised with exercise price of HK$0.96 during 2021.

As at 31 December 2021, 136,099,167 share options were outstanding under the 2010 Share Option Scheme and the 2020 Share Option Scheme in total (31 December 2020: 140,706,500).

REPORT OF THE BOARD OF DIRECTORS

Movements of the share options granted during the year ended 31 December 2021 were as follows:

Name of Director/ Associate	Da te of grant	Exercise Price (HK$)	Number of share options: Outstanding as at 1 January 2021	Granted during this year	Exercised during this year	Weighted average closing price immediately before the date of exercise (HK$)	Cancelled/Lapsed during this year	Outstanding as at 31 December 2021	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	–	–	N/A	–	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	–	–	N/A	–	2,400,000	0.144%	29 September 2014 to 28 September 2024[2]	3.49
	27 March 2018	4.54	17,500,000	–	–	N/A	–	17,500,000	1.049%	27 March 2018 to 27 March 2028[5]	4.12
	19 June 2020	0.96	840,000	–	–	N/A	–	840,000	0.050%	27 September 2020 to 27 March 2028[8]	0.92
			1,260,000	–	–	N/A	–	1,260,000	0.076%	27 September 2021 to 27 March 2028[8]	
			2,100,000	–	–	N/A	–	2,100,000	0.126%	27 September 2022 to 27 March 2028[8]	
Mr. Xia Xinyue	27 March 2018	4.54	10,000,000	–	–	N/A	–	10,000,000	0.600%	27 March 2018 to 27 March 2028[5]	4.12
	19 June 2020	0.96	480,000	–	–	N/A	–	480,000	0.029%	27 September 2020 to 27 March 2028[8]	0.92
			720,000	–	–	N/A	–	720,000	0.043%	27 September 2021 to 27 March 2028[8]	
			1,200,000	–	–	N/A	–	1,200,000	0.072%	27 September 2022 to 27 March 2028[8]	
Mr. Liu Tongyou	29 September 2014	3.58	2,400,000	–	–	N/A	–	2,400,000	0.144%	29 September 2014 to 28 September 2024[2]	3.49
	23 May 2019	3.75	6,300,000	–	–	N/A	–	6,300,000	0.378%	23 May 2019 to 22 May 2029[7]	1.94
	19 June 2020	0.96	390,600	–	–	N/A	–	390,600	0.023%	23 May 2022 to 22 May 2029[8]	0.92
			585,900	–	–	N/A	–	585,900	0.035%	23 May 2023 to 22 May 2029[8]	
			976,500	–	–	N/A	–	976,500	0.059%	23 May 2024 to 22 May 2029[8]	
Mr. Michael Nan Qu	29 September 2014	3.58	1,600,000	–	–	N/A	–	1,600,000	0.096%	29 September 2014 to 28 September 2024[2]	3.49
	19 June 2020	0.96	620,000	–	–	N/A	–	620,000	0.037%	23 May 2022 to 22 May 2029[8]	0.92
			930,000	–	–	N/A	–	930,000	0.056%	23 May 2023 to 22 May 2029[8]	
			1,550,000	–	–	N/A	–	1,550,000	0.093%	23 May 2024 to 22 May 2029[8]	

Name of Director/ Associate	Da te of grant	Exercise Price (HK$)	Number of share options: Outstanding as at 1 January 2021	Granted during this year	Exercised during this year	Weighted average closing price immediately before the date of exercise (HK$)	Cancelled/Lapsed during this year	Outstanding as at 31 December 2021	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	–	–	N/A	–	1,390,000	0.083%	29 September 2014 to 28 September 2024[2]	3.49
	23 May 2019	3.75	600,000	–	–	N/A	–	600,000	0.036%	23 May 2019 to 22 May 2029[7]	1.94
	19 June 2020	0.96	43,400	–	–	N/A	–	43,400	0.0026%	23 May 2022 to 22 May 2029[8]	0.92
			65,100	–	–	N/A	–	65,100	0.0039%	23 May 2023 to 22 May 2029[8]	
			108,500	–	–	N/A	–	108,500	0.0065%	23 May 2024 to 22 May 2029[8]	
Mr. Ho Kwok Yin, Eric	29 September 2014	3.58	1,000,000	–	–	N/A	–	1,000,000	0.060%	29 September 2014 to 28 September 2024[2]	3.49
	19 June 2020	0.96	19,200	–	–	N/A	–	19,200	0.001%	27 September 2020 to 27 March 2028[8]	0.92
			28,800	–	–	N/A	–	28,800	0.002%	27 September 2021 to 27 March 2028[8]	
			48,000	–	–	N/A	–	48,000	0.003%	27 September 2022 to 27 March 2028[8]	
Mr. Iain Ferguson Bruce	29 September 2014	3.58	800,000	–	–	N/A	–	800,000	0.048%	29 September 2014 to 28 September 2024[2]	3.49
	19 June 2020	0.96	19,200	–	–	N/A	–	19,200	0.001%	27 September 2020 to 27 March 2028[8]	0.92
			28,800	–	–	N/A	–	28,800	0.002%	27 September 2021 to 27 March 2028[8]	
			48,000	–	–	N/A	–	48,000	0.003%	27 September 2022 to 27 March 2028[8]	
Mr. Shi Xiaoguang	29 September 2014	3.58	800,000	–	–	N/A	–	800,000	0.048%	29 September 2014 to 28 September 2024[2]	3.49
	19 June 2020	0.96	19,200	–	–	N/A	–	19,200	0.001%	27 September 2020 to 27 March 2028[8]	0.92
			28,800	–	–	N/A	–	28,800	0.002%	27 September 2021 to 27 March 2028[8]	
			48,000	–	–	N/A	–	48,000	0.003%	27 September 2022 to 27 March 2028[8]	

REPORT OF THE BOARD OF DIRECTORS

Name of Director/ Associate	Da te of grant	Exercise Price (HK$)	Number of share options: Outstanding as at 1 January 2021	Granted during this year	Exercised during this year	Weighted average closing price immediately before the date of exercise (HK$)	Cancelled/Lapsed during this year	Outstanding as at 31 December 2021	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	–	–	N/A	–	800,000	0.048%	29 September 2014 to 28 September 2024[2]	3.49
	19 June 2020	0.96	19,200	–	–	N/A	–	19,200	0.001%	27 September 2020 to 27 March 2028[8]	0.92
			28,800	–	–	N/A	–	28,800	0.002%	27 September 2021 to 27 March 2028[8]	
			48,000	–	–	N/A	–	48,000	0.003%	27 September 2022 to 27 March 2028[8]	
Mr. Jin Peng	19 June 2020	0.96	19,200	–	–	N/A	–	19,200	0.001%	27 September 2020 to 27 March 2028[8]	0.92
			28,800	–	–	N/A	–	28,800	0.002%	27 September 2021 to 27 March 2028[8]	
			48,000	–	–	N/A	–	48,000	0.003%	27 September 2022 to 27 March 2028[8]	
Ms. Sharon Nan Kobler *(associate of Mr.Song Zhenghuan and Ms. Fu Jingqiu)*	19 June 2020	0.96	124,000	–	–	N/A	–	124,000	0.007%	23 May 2022 to 22 May 2029[8]	0.92
			186,000	–	–	N/A	–	186,000	0.011%	23 May 2023 to 22 May 2029[8]	
			310,000	–	–	N/A	–	310,000	0.019%	23 May 2024 to 22 May 2029[8]	
Mr. Martin Patrick Pos *(associate of Mr.Martin Pos)*	11 December 2020	1.01	310,000	–	–	N/A	–	310,000	0.019%	11 December 2020 to 10 December 2030[9]	1.00
Total number held by Directors	29 September 2014	3.58	12,580,000	–	–	N/A	–	12,580,000	0.754%	29 September 2014 to 28 September 2024[2]	3.49
	27 March 2018	4.54	27,500,000	–	–	N/A	–	27,500,000	1.649%	27 March 2018 to 27 March 2028[5]	4.12
	23 May 2019	3.75	6,900,000	–	–	N/A	–	6,900,000	0.414%	23 May 2019 to 22 May 2029[7]	1.94
	19 June 2020	0.96	12,350,000	–	–	N/A	–	12,350,000	0.740%	Refer to note[8]	0.92

Name of Director/ Associate	Date of grant	Exercise Price (HK$)	Number of share options: Outstanding as at 1 January 2021	Granted during this year	Exercised during this year	Weighted average closing price immediately before the date of exercise (HK$)	Cancelled/Lapsed during this year	Outstanding as at 31 December 2021	Percentage of total issued share capital[1]	Exercise period	Closing price of securities immediately before the date of grant (HK$)
Total number held by Associates	19 June 2020	0.96	620,000	–	–	N/A	–	620,000	0.037%	Refer to note[8]	0.92
	11 December 2020	1.01	310,000	–	–	N/A	–	310,000	0.019%	Refer to note[9]	1.00
Total number held by employees of the Group	29 September 2014	3.58	12,500,000	–	–	N/A	–	12,500,000	0.749%	29 September 2014 to 28 September 2024[3]	3.49
	7 October 2015	3.75	10,200,000	–	–	N/A	(400,000)	9,800,000	0.588%	7 October 2015 to 6 October 2025[4]	3.66
	27 March 2018	4.54	4,000,000	–	–	N/A	–	4,000,000	0.240%	27 March 2018 to 27 March 2028[5]	4.12
	28 May 2018	5.122	3,600,000	–	–	N/A	–	3,600,000	0.216%	28 May 2018 to 27 May 2028[6]	4.92
	23 May 2019	3.75	31,800,000	–	–	N/A	(2,000,000)	29,800,000	1.787%	23 May 2019 to 22 May 2029[7]	1.94
	19 June 2020	0.96	13,114,500	–	(8,000)	1.80	(959,333)	12,147,167	0.728%	Refer to note[8]	0.92
	11 December 2020	1.01	5,232,000	–	–	N/A	(1,240,000)	3,992,000	0.239%	Refer to note[9]	1.00

Notes:

(1) The percentage is calculated based on the total number of 1,668,031,166 shares in issue as at 31 December 2021.

(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 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.

REPORT OF THE BOARD OF DIRECTORS

(6) 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.

(7) 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.

(8) Among the 25,117,167 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) 93,333 share options will be vested on 28 August 2021 and exercisable until 27 August 2027;

(iii) 93,334 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) 5,316,000 share options will be vested on 27 September 2022 and exercisable until 27 March 2028;

(vii) 216,000 share options will be vested on 28 May 2021 and exercisable until 27 May 2028;

(viii) 324,000 share options will be vested on 28 May 2022 and exercisable until 27 May 2028;

(ix) 540,000 share options will be vested on 28 May 2023 and exercisable until 27 May 2028;

(x) 2,563,700 share options will be vested on 23 May 2022 and exercisable until 22 May 2029;

(xi) 3,845,550 share options will be vested on 23 May 2023 and exercisable until 22 May 2029; and

(xii) 6,409,250 share options will be vested on 23 May 2024 and exercisable until 22 May 2029.

(9) 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 2021, the total number of shares available for issue under the 2020 Share Option Scheme was 116,586,316 shares, which represented 6.99% 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.

REPORT OF THE BOARD OF DIRECTORS

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

As at 31 December 2021, 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 AND/OR UNDERLYING 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 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.

Save as disclosed above, as at 31 December 2021, none of the Directors or chief executive of the Company or their respective close associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2021, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Capacity	Number of Shares and/or Underlying Shares	Approximate Percentage of Shareholding
Cayey Enterprises Limited (Note 2)	Interest of Controlled Corporation/ Beneficial Owner	548,994,581 (L)	32.91%
Credit Suisse Trust Limited (Singapore) (Note 2)	Trustee	548,994,581 (L)	32.91%
Grappa Holdings Limited (Note 2)	Interest of Controlled Corporation	548,994,581 (L)	32.91%
Pacific United Developments Limited ("PUD") (Note 2)	Beneficial Owner	409,518,229 (L)	24.55%
Sure Growth Investments Limited (Note 3)	Beneficial Owner	129,293,975 (L)	7.75%
FIL Limited	Investment Manager	115,622,000 (L)	6.93%
Pandanus Associates Inc.	Investment Manager	115,622,000 (L)	6.93%
Pandanus Partners L.P.	Investment Manager	115,622,000 (L)	6.93%
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%

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 2021, 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 2021 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 2021.

CONNECTED TRANSACTIONS

The Group's related parties transactions marked with "#" for the year ended 31 December 2021 set out in note 40 to the Financial Statements constitute 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.

REPORT OF THE BOARD OF DIRECTORS

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.

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 annual rental of the Properties payable by GCPX to GGPX 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 ended 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 2021 was RMB11,049,000 (approximately HK$13,317,000).

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 2018 First Lease Agreement constitutes a continuing 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.

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

The annual caps under the 2018 Second Lease Agreement for each of the three years ended 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 II for the year ended 31 December 2021 was RMB1,887,000 (approximately HK$2,274,000).

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 2018 Second Lease Agreement constitutes a continuing 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) SUPPLY AGREEMENTS WITH GCHL

On 28 August 2018, the Company and GCHL entered into a supply agreement (the "2018 Supply Agreement") for a fixed term of 3 years commencing from 1 January 2019 and ending on 31 December 2021. On 23 August 2021, the Company and GCHL entered into a renewal agreement (the "2021 Supply Agreement", together with the 2018 Supply Agreement referred to as "Supply Agreements") to renew the 2018 Supply Agreement for a fix term of 3 years commencing from 1 January 2022 to 31 December 2024.

Pursuant to the Supply Agreements, 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 Supply Agreements, 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.

REPORT OF THE BOARD OF DIRECTORS

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 annual caps under the 2021 Supply Agreement for each of the three years ending 31 December 2024 are RMB20,000,000, RMB26,000,000 and RMB34,000,000, respectively.

The transaction between the Company and its subsidiaries and GCHL and its subsidiaries in relation to the MBC Products sold for the year ended 31 December 2021 was RMB6,486,000 (approximately HK$7,817,000). For further details, please also refer to the announcements of the Company dated 28 August 2018, 23 August 2021 and 13 September 2021, respectively.

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 Supply Agreements constitute connected transactions 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.

CONNECTED TRANSACTIONS

(A) 2021 FIRST LEASE AGREEMENT

On 29 November 2021, GGPX and GCPX entered into a renewal agreement (the "2021 First Lease Agreement") to renew the 2018 First Lease Agreement for a term of 3 years commencing from 1 January 2022 and ending on 31 December 2024.

Pursuant to the 2021 First Lease Agreement, GGPX agreed to lease Property I (as defined in the announcement of the Company dated 29 November 2021) to GCPX principally for production and for manufacturing and manufacturing support facilities purposes.

The aggregate annual rental payable by GCPX to GGPX under the 2021 First Lease Agreement was determined after arm's length negotiation between the parties thereto with reference to the prevailing market rent as well as the qualities of other properties in the area surrounding Property I, the potential increase in market rentals during the term of the 2021 First Lease Agreement and the historical annual caps and actual transaction amount of the 2018 First Lease Agreement. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

The annual rentals under the 2021 First Lease Agreement for each of the three years ending 31 December 2024 are RMB12,106,200, RMB12,610,620 and RMB13,115,040, respectively.

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 2021 First Lease Agreement constitutes as a connected transaction for the Company.

(B) 2021 SECOND LEASE AGREEMENT

On 29 November 2021, GGPX and GCPC entered into a renewal agreement (the "2021 Second Lease Agreement" and together with the 2021 First Lease Agreement, the "2021 Lease Agreements") to renew the 2018 Second Lease Agreement for a term of 3 years commencing from 1 January 2022 and ending on 31 December 2024.

Pursuant to the 2021 Second Lease Agreement, GGPX agreed to lease Property II (as defined in the announcement of the Company dated 29 November 2021) to GCPC principally for the usage as logistics warehouse purpose. The aggregate annual rental payable by GCPC to GGPX under the 2021 Second Lease Agreement was determined with reference to the prevailing market rent as well as the qualities of other properties in the area surrounding Property II, the potential increase in market rentals during the term of the 2021 Second Lease Agreement; and the historical annual caps and actual transaction amount under the 2018 Second Lease Agreement. Rental payment for each month is payable in advance on a monthly basis before the tenth day of each month.

The annual rentals under the 2021 Second Lease Agreement for each of the three years ending 31 December 2024 are RMB1,895,268, RMB1,965,456 and RMB2,035,656, respectively.

REPORT OF THE BOARD OF DIRECTORS

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 2021 Second Lease Agreement constitutes as a connected transaction for the Company.

The right-of-use assets acquired under the 2021 Lease Agreements was recognized by the Group in its consolidated statement of financial position in accordance with the IFRS 16. Accordingly, the entering into of the 2021 Lease Agreements and the transactions contemplated thereunder were deemed as acquisitions of right-of-use assets by the Group. The total value of the right-of-use assets under the 2021 Lease Agreements was estimated to be approximately RMB40,481,709 (equivalent to HK$48,655,900), which was calculated with reference to the gross rental payments. As one or more of the applicable percentage ratios of the estimated value of the right-of-use assets to be recognized by the Company under the 2021 Lease Agreements are more than 0.1% but all of the applicable percentage ratios are less than 5%, the entering of 2021 Lease Agreements and the transactions contemplated thereunder was subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For further details of the 2021 Lease Agreements, please also refer to the announcements of the Company dated 7 October 2015, 28 August 2018 and 29 November 2021.

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

JULY 2018 FACILITY AGREEMENT

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

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

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

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

As at the date of this report, all the amounts borrowed under the July 2018 Facility Agreement had been fully repaid. 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, all the amounts borrowed under the December 2018 Facility Agreement had been fully repaid.

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 "April 2021 Facility Agreement") in respect of a US$165,000,000 term loan facility with a term of 36 months from the first utilisation date. The total commitment under the April 2021 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 April 2021 Facility Agreement, if (a) 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:

(1) 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

(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).

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.

REPORT OF THE BOARD OF DIRECTORS

The term loan facility under this April 2021 Facility Agreement was fully utilised in 23 September 2021. As at the date of this report, US$165,000,000 remains outstanding in respect of this April 2021 Facility Agreement.

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

Save as disclosed above, as at 31 December 2021, the Company did not have other disclosure obligations under Rule 13.18 of the Listing Rules.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ENVIRONMENTAL PROTECTION

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

The Company considers our staff, shareholders and potential investors, government authorities, suppliers, community individuals, media and consumers as our key stakeholders, and values highly the expectations and opinions of our stakeholders on us with respect to environment, society and governance. The Company has commenced multidimensional 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 2021.

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 2021 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 2021.

AUDITORS

The financial statements of the Company for the year ended 31 December 2021 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

22 March 2022

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 141 to 267, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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$2,813 million and HK$1,768 million as at 31 December 2021, which represented 21% and 13% 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 2021, the provisions for product liabilities amounted to HK$106 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
22 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2021

	Notes	2021	2020
		(HK$'000)	
Revenue	5	9,692,137	8,304,967
Cost of sales		(5,696,909)	(4,636,930)
Gross profit		3,995,228	3,668,037
Other income and gains	5	80,800	90,048
Selling and distribution expenses		(2,476,241)	(2,131,438)
Administrative expenses		(1,426,458)	(1,145,615)
Other expenses		(7,266)	(50,972)
Finance income	6	35,074	5,956
Finance costs	7	(90,594)	(114,068)
Share of profits and losses of:			
Joint ventures		1,277	(1,143)
An associate		(8)	(105)
PROFIT BEFORE TAX	8	**111,812**	**320,700**
Income tax credit/(expense)	11	15,749	(62,780)
PROFIT FOR THE YEAR		**127,561**	**257,920**
Attributable to:			
Owners of the parent		123,817	256,574
Non-controlling interests		3,744	1,346
		127,561	257,920
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	13		
Basic			
For profit for the year (HK$)		0.07	0.15
Diluted			
For profit for the year (HK$)		0.07	0.15

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2021

	2021	2020
	(HK$'000)	
PROFIT FOR THE YEAR	**127,561**	**257,920**
OTHER COMPREHENSIVE 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 year	24,044	8,692
Reclassification adjustments for gains included in the consolidated statement of profit or loss	(12,807)	(5,890)
Income tax effect	(1,948)	(326)
	9,289	2,476
Exchange differences on translation of foreign operations	143,048	397,393
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	152,337	399,869
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Actuarial gains of defined benefit plans	489	1,219
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	489	1,219
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**152,826**	**401,088**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**280,387**	**659,008**
Attributable to:		
Owners of the parent	275,959	655,367
Non-controlling interests	4,428	3,641
	280,387	**659,008**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2021

	Notes	31 December 2021	31 December 2020
		(HK$'000)	
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,031,631	1,033,485
Right-of-use assets	15(a)	336,549	256,844
Goodwill	16	2,812,866	2,763,595
Other intangible assets	17	2,281,555	2,287,136
Investments in joint ventures		6,513	5,070
Investment in an associate		–	2,243
Deferred tax assets	30	85,109	98,237
Pledged deposits	23	1,152,021	–
Other long-term assets	18	11,294	11,328
Total non-current assets		7,717,538	6,457,938
CURRENT ASSETS			
Inventories	19	2,402,801	2,061,439
Trade and notes receivables	20	1,247,410	1,134,657
Prepayments and other receivables	21	641,951	464,690
Due from related parties	40	6,775	6,532
Financial assets at fair value through profit or loss	22	17,824	6,994
Cash and cash equivalents	23	1,087,413	1,693,152
Pledged deposits	23	9,454	25,702
Derivative financial instruments	24	40,546	17,683
Total current assets		5,454,174	5,410,849
CURRENT LIABILITIES			
Trade and bills payables	25	1,636,633	1,455,446
Other payables and accruals	26	905,027	908,563
Income tax payable		39,483	27,491
Provision	27	99,003	54,547
Interest-bearing bank loans and other borrowings	28	1,223,104	1,986,869
Lease liabilities	15(b)	98,979	95,600
Derivative financial instruments	24	4,260	6,003
Due to related parties	40	604	3,227
Defined benefit plan liabilities	29	337	388
Total current liabilities		4,007,430	4,538,134
NET CURRENT ASSETS		1,446,744	872,715
TOTAL ASSETS LESS CURRENT LIABILITIES		9,164,282	7,330,653

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2021

	Notes	31 December 2021	31 December 2020
		(HK$'000)	
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	28	2,294,380	785,735
Provision	27	53,870	63,559
Defined benefit plan liabilities	29	3,534	4,232
Other liabilities	31	2,129	1,872
Lease liabilities	15(b)	201,925	123,177
Deferred tax liabilities	30	510,940	570,509
Total non-current liabilities		3,066,778	1,549,084
Net assets		6,097,504	5,781,569
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	16,680	16,680
Reserves	34	6,044,271	5,732,764
		6,060,951	5,749,444
Non-controlling interests		36,553	32,125
Total equity		6,097,504	5,781,569

SONG Zhenghuan
Director

LIU Tongyou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2021

	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 2020 and 1 January 2021	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
Profit for the year	–	–	–	–	–	–	–	–	–	123,817	123,817	3,744	127,561
Remeasurement effects of defined benefit plans	–	–	–	–	–	489	–	–	–	–	489	–	489
Cash flow hedges, net of tax	–	–	–	–	–	–	–	–	9,289	–	9,289	–	9,289
Exchange differences on translation	–	–	–	–	142,364	–	–	–	–	–	142,364	684	143,048
Total comprehensive income for the year	–	–	–	–	142,364	489	–	–	9,289	123,817	275,959	4,428	280,387
Share option exercises	–	10	(2)	–	–	–	–	–	–	–	8	–	8
Profit appropriation	–	–	–	18,855	–	–	–	–	–	(18,855)	–	–	–
Equity-settled share option arrangements	–	–	35,540	–	–	–	–	–	–	–	35,540	–	35,540
At 31 December 2021	**16,680**	**3,320,411***	**192,403***	**237,652***	**287,726***	**5,474***	**153,975***	**(8,256) ***	**11,394***	**1,843,492***	**6,060,951**	**36,553**	**6,097,504**
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$6,044,271,000 (2020: HK$5,732,764,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2021

CASH FLOWS FROM OPERATING ACTIVITIES	2021	2020
	(HK$'000)	
Profit before tax	111,812	320,700
Adjustments for:		
Finance costs	90,594	114,068
Share of profits and losses of joint ventures and an associate	(1,269)	1,248
Interest income	(35,074)	(5,956)
Gain on wealth investment products received	(841)	(17,752)
Loss on disposal of items of property, plant and equipment	114	14,559
Loss on disposal of Intangible assets	200	776
Fair value gains, net:		
Cash flow hedges (transfer from equity)	–	152
Derivative instruments – transactions not qualifying as hedges	(1,249)	(2,000)
Gains on call/put options over non-controlling interests	(2,640)	–
Covid-19-related rent concessions from lessors	(97)	(3,605)
Depreciation of property, plant and equipment	304,586	287,922
Depreciation of right-of-use assets	130,443	121,318
Amortisation of other intangible assets	65,319	56,270
Provision/(reversal) of inventories	2,940	(7,765)
Provision for impairment of receivables	4,474	1,431
Impairment of property, plant and equipment	–	10,962
Equity-settled share option expenses	35,540	43,209
	704,852	935,537
Increase in inventories	(344,302)	(115,077)
Increase in trade and notes receivables	(117,227)	(60,454)
(Increase)/decrease in prepayments and other receivables	(63,898)	43,916
(Increase)/decrease in amounts due from related parties	(243)	5,063
Decrease/(increase) in pledged deposits	1,777	(1,777)
Increase in derivative financial assets	(22,863)	(11,349)
Decrease/(increase) in other long-term assets	34	(2,547)
Increase in trade and bills payables	181,187	131,199
(Decrease)/increase in other payables and accruals	(11,877)	119,979
Increase in provision	34,767	32,197
(Decrease)/increase in derivative financial liabilities	(1,743)	1,432
(Decrease)/Increase in amounts due to related parties	(2,623)	3,227
Decrease in defined benefit plan liabilities	(749)	(1,212)
Increase/(decrease) in other liabilities	257	(3,761)
Cash generated from operations	357,349	1,076,373
Income tax refund	26,275	–
Income tax paid	(70,976)	(21,485)
Net cash flows generated from operating activities	312,648	1,054,888

CASH FLOWS FROM INVESTING ACTIVITIES	Note	2021	2020
		(HK$'000)	
Interest received		16,581	5,956
Gain on wealth investment products received		841	17,752
Purchase of property, plant and equipment		(314,506)	(244,876)
Addition to other intangible assets		(44,799)	(33,583)
Proceeds from disposal of property, plant and equipment		9,096	9,443
Purchase of Financial assets at fair value through profit or loss through profit or loss		–	(6,994)
Disposal of a subsidiary		–	(4)
Net cash flows used in investing activities		(332,787)	(252,306)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		8	–
New bank loans		3,296,922	10,907,450
Repayment of bank loans		(2,555,143)	(10,891,721)
Interest paid		(80,878)	(120,143)
Principal portion of lease payments		(126,896)	(113,233)
(Increase)/decrease in pledged deposits		(1,119,057)	106
Acquisition of non-controlling interests		–	(2,405)
Net cash flows used in financing activities		(585,044)	(219,946)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(605,183)	582,636
Cash and cash equivalents at beginning of year		1,693,152	1,054,615
Effect of foreign exchange rate changes, net		(556)	55,901
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	1,087,413	1,693,152

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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$1,001	Investment holding and sales agent company
Goodbaby Child Products Co., Ltd. ("GCPC") (Note (a), (b) and (c))	The People's Republic of China ("PRC"), 18 November 1994	–	100%	United States Dollar ("US$") 66,660,000	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
Cybex Retail GmbH ("CBRG")	Germany, 20 October 2020	–	100%	EUR25,000	Wholesale and retail of children's 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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

2.1 BASIS OF PREPARATION (Continued)

BASIS OF CONSOLIDATION (Continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 9, IAS 39 and IFRS 7 IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)*

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

(a) 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 risk-free rate ("RFR"). The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities 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 Group had certain interest-bearing bank borrowings denominated in United States dollars ("US$") based on the London Interbank Offered Rate ("LIBOR") and in EUR based on the Euro Interbank Offer Rate ("EURIBOR") as at 31 December 2021. For the LIBOR-based borrowings and EURIBOR-based borrowings, since the interest rates of these instruments were not replaced by RFRs during the year, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings and interest rate swap are replaced by RFRs in a future period, the Group will apply this the above-mentioned practical expedient upon the modification of these instruments provided that the "economically equivalent" criterion is met. Additional information about the transition and the associated risks is disclosed in note 43 to the financial statements.

(b) Amendment to IFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

    The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the year ended 31 December 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 31 December 2022 as a direct consequence of the COVID-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK$97,000 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 2021.

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*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IFRS 17	*Insurance Contracts*[2,5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2,4]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[2]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
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 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the amendments to IAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
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 2021

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-Int 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-Int 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 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) 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 resulting from a downstream transaction 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 (2011) was removed by the IASB in January 2016 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 *Classification of Liabilities as Current or Non-current* 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.

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

Amendments to IAS 1 Disclosure of Accounting Policies require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. 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 2021

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

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.

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*.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2021

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. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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 2021

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$1,767,585,000 (2020: HK$1,755,034,000) 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 2021

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2021

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 2021

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

31 DECEMBER 2021

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 2021

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

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

Cash flow hedges

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

Current versus non-current classification

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

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

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

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

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2021

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 2021

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. Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognised in relation to such shares are reversed effective the date of the forfeiture.

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 2021

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 2021 and 2020.

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 2021

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 exchange rates that approximate to those prevailing at the dates of the transactions.

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 2021 was approximately HK$2,812,866,000 (2020: HK$2,763,595,000). Further details are given in note 16.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2021 was HK$29,616,000 (2020: HK$12,275,000). The amount of unrecognised tax losses at 31 December 2021 was HK$23,568,000 (2020: HK$71,367,000). Details of unrecognised tax losses as at the end of the reporting period are contained in note 30.

Write-down of inventories

The Group's inventories are stated at the lower of cost and net realisable value. The Group writes down its inventories based on estimates of the realisable value with reference to the age and conditions of the inventories, together with the economic circumstances on the marketability of such inventories. Inventories will be reviewed annually for write-down, if appropriate.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

ESTIMATION UNCERTAINTY (Continued)

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each of the year based on changes in circumstances. Further details of the property, plant and equipment are set out in note 14 to the consolidated financial statements.

Provisions

Provisions for product warranties granted by the Group on its products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

The Group also makes provision for product liabilities which is based on estimated future costs to be incurred in claims. There are significant estimates included in the projection, which are the discount rate used and assessment on the possibility of outcome of the claims based on historical experience.

Defined benefit plans

The Group operates and maintains defined retirement benefit plans. The cost of providing the benefits in the defined retirement benefit plans is actuarially determined by utilising various actuarial assumptions and using the projected unit credit method. These assumptions include, without limitation, the selection of discount rates and healthcare trend rates.

Additional information regarding the retirement benefit plan is disclosed in note 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 2021

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2021

	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Consolidated
	(HK$'000)				
Segment revenue					
Sales to external customers	3,704,420	3,230,932	1,393,976	1,362,809	9,692,137
Segment results	**1,593,134**	**1,396,589**	**615,444**	**390,061**	**3,995,228**
Other income and gains					80,800
Corporate and other unallocated expenses					(3,911,977)
Other expenses					(7,266)
Finance income					35,074
Finance costs (other than interest on lease liabilities)					(81,316)
Share of profits and losses of joint ventures					1,277
Share of profits and losses of an associate					(8)
Profit before tax					**111,812**
Other segment information:					
Impairment losses recognised in the statement of profit or loss, net	883	2,844	4,262	(575)	7,414
Depreciation and amortisation	197,267	189,596	62,302	51,183	500,348

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	**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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2021					
Segment revenue:					
Sales to external customers	**3,526,418**	**3,148,253**	**2,515,295**	**502,171**	**9,692,137**
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

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

4. OPERATING SEGMENT INFORMATION (Continued)

GEOGRAPHICAL INFORMATION (Continued)

(b) Non-current assets

	2021	2020
	(HK$'000)	
Mainland China	5,536,212	4,243,555
North America	989,234	1,024,665
Europe	1,089,176	1,072,841
	7,614,622	**6,341,061**

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 2021, revenue from sales to a major customer of third party is HK$979,716,000 (2020: HK$820,669,000). 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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021	2020
	(HK$'000)	
Revenue from contracts with customers		
Sale of goods	9,657,536	8,277,221
Rendering of testing services	34,601	27,746
	9,692,137	8,304,967

REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Disaggregated revenue information

For the year ended 31 December 2021

Segments	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Total
	(HK$'000)				
Type of goods or services					
Sale of goods	3,704,420	3,230,932	1,393,976	1,328,208	9,657,536
Rendering of testing services	–	–	–	34,601	34,601
Total revenue from contracts with customers	3,704,420	3,230,932	1,393,976	1,362,809	9,692,137
Timing of revenue recognition					
Goods transferred at a point in time	3,704,420	3,230,932	1,393,976	1,328,208	9,657,536
Services transferred at a point in time	–	–	–	34,601	34,601
Total revenue from contracts with customers	3,704,420	3,230,932	1,393,976	1,362,809	9,692,137
Revenue from contracts with customers					
External customers	3,704,420	3,230,932	1,393,976	1,362,809	9,692,137

5. REVENUE, OTHER INCOME AND GAINS (Continued)

REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

(i) Disaggregated revenue information (Continued)

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 2021

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:

	2021	2020
	(HK$'000)	
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	146,226	135,885

(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 2021 are as follows:

	2021	2020
	(HK$'000)	
Amounts expected to be recognised as revenue:		
Within one year	124,755	146,226

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

5. REVENUE, OTHER INCOME AND GAINS (Continued)

OTHER INCOME AND GAINS

	2021	2020
	(HK$'000)	
Other income and gains:		
Government grants (note (a))	53,144	62,313
Gain on sales of scrap materials (note (b))	10,890	–
Compensation income (note (c))	7,225	2,626
Fair value gains, net		
Gains on call/put options over non-controlling interests	2,640	2,603
Derivative instruments – transactions not qualifying as hedges	1,249	2,000
Gain on wealth investment products (note (d))	841	17,752
Others	4,811	2,754
Total	**80,800**	**90,048**

Note (a): The amount represents subsidies received from local government authorities in connection with certain financial support to local business enterprises. These government subsidies mainly comprised subsidies for export activities, subsidies for development, subsidies to support operations during the covid-19 and other miscellaneous subsidies and incentives for various purposes.

Note (b): The amount represents the gain on sales of aluminium, plastics, cloth and other scrap materials.

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.

Note (d): The amount represents the gain on disposal of wealth investment products.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

6. FINANCE INCOME

	2021	2020
	(HK$'000)	
Interest income on bank deposits	**35,074**	**5,956**

7. FINANCE COSTS

	2021	2020
	(HK$'000)	
Interest on bank loans, overdrafts and other loans	81,316	104,201
Interest on lease liabilities	9,278	9,867
	90,594	**114,068**

8. PROFIT BEFORE TAX

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

	Notes	2021	2020
		(HK$'000)	
Cost of inventories sold		5,681,016	4,624,175
Cost of services provided		15,893	12,755
Depreciation of property, plant and equipment	14	304,586	287,922
Depreciation of right-of-use assets	15(a)	130,443	121,318
Amortisation of intangible assets	17	65,319	56,270
Research and development costs		418,866	339,125
Lease payments not included in the measurement of lease liabilities	15(c)	32,861	30,638
Auditors' remuneration		9,080	9,808
Employee benefit expense (including directors' remuneration):			
Wages, salaries and other benefits		1,728,891	1,520,603
Share option expense		35,540	43,209
Pension scheme costs (defined benefit plans) (including administrative expense)		89	140
Pension scheme contributions		100,989	70,481
		1,865,509	1,634,433
Net foreign exchange loss		4,861	17,103
Impairment of trade and note receivables	20	4,474	1,431
Provision/(reversal) of inventories		2,940	(7,765)
Product warranties and liabilities		85,246	111,336
Fair value losses/(gains), net:			
Cash flow hedges (transfer from equity)		–	152
Derivative instruments – transactions not qualifying as hedges		(1,249)	(2,000)
Financial assets at fair value through profit or loss		(841)	(17,752)
Gains on call/put options over non-controlling interests		(2,640)	(2,603)
Loss on disposal of items of property, plant and equipment		114	14,559
Loss on disposal of intangible assets		200	776
Bank interest income		(35,074)	(5,956)
Impairment of property, plant and equipment		–	10,962

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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:

	2021	2020
	(HK$'000)	
Fees	3,770	3,353
Other emoluments:		
Salaries, allowances and benefits in kind	28,292	26,371
Performance-related bonuses	8,686	15,502
Equity-settled share option expenses	19,982	28,161
Pension scheme contributions	360	292
	57,320	70,326
	61,090	**73,679**

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	2021	2020
	(HK$'000)	
Iain Ferguson Bruce	466	466
Shi Xiaoguang	311	310
Chiang Yun	311	310
Jin Peng	233	233
	1,321	**1,319**

There were no other emoluments payable to the independent non-executive directors in 2021 (2020: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

2021

	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	–	3,606	–	–	–	3,606
Michael, Qu Nan	–	3,232	768	752	68	4,820
Martin Pos	–	13,253	5,522	11,500	–	30,275
Liu Tongyou	–	4,127	1,008	948	146	6,229
Xia Xinyue	–	4,074	1,388	6,571	146	12,179
	–	**28,292**	**8,686**	**19,771**	**360**	**57,109**
Non-executive directors:						
Eric, Ho Kwok Yin	661	–	–	113	–	774
Fu Jinqiu	1,788	–	–	98	–	1,886
	2,449	**–**	**–**	**211**	**–**	**2,660**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

9. DIRECTORS' REMUNERATION (Continued)

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

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**

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2020: three), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2020: two) non-directors, highest paid employees for the year are as follows:

	2021	2020
	(HK$'000)	
Salaries, allowances and benefits in kind	9,791	6,836
Performance related bonuses	1,942	2,896
Pension scheme contributions	260	227
	11,993	**9,959**

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

	Number of employees	
	2021	2020
HK$4,000,001 to HK$4,500,000	1	1
HK$5,500,001 to HK$6,000,000	–	1
HK$7,000,001 to HK$8,000,000	1	–
	2	**2**

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 (2020: 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% (2020: 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 (2020: 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%.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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:

	2021	2020
	(HK$'000)	
Current – income tax		
Charge for the year	38,516	42,953
Deferred income tax (note 30)	(54,265)	19,827
Income tax (credit)/expense reported in the statement of profit or loss	(15,749)	62,780

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:

	2021	2020
	(HK$'000)	
Profit before tax	111,812	320,700
Expected income tax based on different rates applicable to profits in the countries covered	3,782	70,918
Temporary difference and tax losses not recognised	4,115	12,201
Tax credit arising from additional deduction of R&D expenditures of PRC subsidiaries	(29,140)	(17,526)
Tax effect on non-taxable income	(1,164)	(11,231)
Tax effect on non-deductible expenses	6,658	8,418
Income tax (credit)/expense	(15,749)	62,780

12. DIVIDENDS

The Board did not recommend the payment of any dividend for the years ended 31 December 2021 and 2020.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 1,668,027,659 in issue during the year (2020: 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 calculation of earnings per share is based on:

	2021	2020
	(HK$'000)	
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**123,817**	**256,574**

	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,668,027,659	1,668,023,166
Effect of dilution – weighted average number of ordinary shares:		
Share options	1,738,426	–
Total	1,669,766,085	1,668,023,166

14. PROPERTY, PLANT AND EQUIPMENT

31 DECEMBER 2021

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
	(HK$'000)						
At 31 December 2020 and at 1 January 2021:							
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**
At 1 January 2021, net of accumulated depreciation	249,624	443,277	7,855	111,613	159,627	61,489	1,033,485
Additions	2,908	45,482	486	64,597	74,100	126,933	314,506
Disposals	(167)	(3,701)	(53)	(2,337)	(2,822)	(130)	(9,210)
Depreciation provided during the year	(39,721)	(136,435)	(2,649)	(59,402)	(66,379)	–	(304,586)
Transfers	4,461	82,919	931	13,146	750	(102,207)	–
Exchange realignment	2,592	(412)	233	(3,584)	(2,666)	1,273	(2,564)
At 31 December 2021, net of accumulated depreciation and impairment	**219,697**	**431,130**	**6,803**	**124,033**	**162,610**	**87,358**	**1,031,631**
At 31 December 2021:							
Cost	647,267	1,303,059	25,086	375,930	327,761	87,358	2,766,461
Accumulated depreciation and impairment	(427,570)	(871,929)	(18,283)	(251,897)	(165,151)	–	(1,734,830)
Net carrying amount	**219,697**	**431,130**	**6,803**	**124,033**	**162,610**	**87,358**	**1,031,631**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

31 DECEMBER 2020

	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**

At 31 December 2021, certain of the Group's machinery with a net carrying amount of approximately HK$5,834,000 (2020: HK$10,810,000) was pledged to secure a bank loan granted to the Group (note 28).

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 2 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 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 and 1 January 2021	48,514	189,641	1,741	16,690	258	256,844
Additions	–	194,741	2,249	10,647	6,071	213,708
Depreciation charge	(1,624)	(113,093)	(1,630)	(10,131)	(3,965)	(130,443)
Exchange realignment	862	(3,054)	13	(1,272)	(109)	(3,560)
As at 31 December 2021	**47,752**	**268,235**	**2,373**	**15,934**	**2,255**	**336,549**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

15. LEASES (Continued)

THE GROUP AS A LESSEE (Continued)

(b) Lease liabilities

	2021	2020
	(HK$'000)	
Carrying amount at 1 January	218,777	255,196
New leases	213,708	68,908
Modification	–	(969)
Covid-19-related concessions from lessors	(97)	(3,605)
Interest expense	9,278	9,867
Payments	(136,174)	(123,100)
Exchange realignment	(4,588)	12,480
Carrying amount at 31 December	300,904	218,777
Analysed into:		
Current portion	98,979	95,600
Non-current portion	201,925	123,177

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

	2021	2020
	(HK$'000)	
Interest on lease liabilities	9,278	9,867
Depreciation charge of right-of-use assets	130,443	121,318
Expense relating to short-term leases	30,966	29,037
Variable lease payments not included in the measurement of lease liabilities	1,857	1,562
Covid-19-related rent concessions from lessors	(97)	(3,605)
Expense relating to leases of low-value assets	38	39
At end of year	172,485	158,218

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

16. GOODWILL

	(HK$'000)
Cost and net carrying amount at 1 January 2020	2,637,062
Exchange realignment	126,533
Cost and net carrying amount at 31 December 2020 and 1 January 2021	2,763,595
Exchange realignment	49,271
Cost and net carrying amount at 31 December 2021	**2,812,866**

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

Goodwill is allocated to the following CGU for impairment testing:

	2021	2020
	(HK$'000)	
Manufacture and export of stroller-related products unit	15,301	14,826
Evenflo unit	614,425	610,816
Columbus unit	196,832	212,717
NICAM unit	5,315	5,744
Oasis Dragon unit	1,980,993	1,919,492
	2,812,866	2,763,595

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

	2021	2020
	(HK$'000)	
Evenflo unit	137,743	136,934
Columbus unit	347,725	375,787
Oasis Dragon unit	1,282,116	1,242,313
	1,767,584	1,755,034

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2.5%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2021 was 16.5% (2020: 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 2.0%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2021 was 12.9% (2020: 12.6%).

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 1.2%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2021 was 16.8% (2020: 15.4%).

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 1.2%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2021 was 12.9% (2020: 14.2%).

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 2.5%. The pre-tax discount rate applied to the cash flow projections as at 31 December 2021 was 14.8% (2020: 14.9%).

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

17. OTHER INTANGIBLE ASSETS

31 DECEMBER 2021

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2020 and at 1 January 2021:						
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**
At 1 January 2021, net of accumulated amortisation	1,769,554	56,053	75	421,316	40,138	2,287,136
Additions	698	36,648	–	8,713	2,977	49,036
Disposals	–	(200)	–	–	–	(200)
Amortisation provided during the year	(2,979)	(18,281)	–	(39,507)	(4,552)	(65,319)
Exchange realignment	12,786	(7,193)	1	6,713	(1,405)	10,902
At 31 December 2021, net of accumulated depreciation	**1,780,059**	**67,027**	**76**	**397,235**	**37,158**	**2,281,555**
At 31 December 2021:						
Cost	1,816,735	137,532	7,297	590,187	77,956	2,629,707
Accumulated amortisation	(36,676)	(70,505)	(7,221)	(192,952)	(40,798)	(348,152)
Net carrying amount	**1,780,059**	**67,027**	**76**	**397,235**	**37,158**	**2,281,555**

17. OTHER INTANGIBLE ASSETS (Continued)

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**

18. OTHER LONG-TERM ASSETS

Other long-term assets represent call options over non-controlling interests was nil (2020: HK$1,716,000) arising from the acquisition of subsidiaries and a deposit for insurance over one year of HK$11,294,000 (2020: HK$9,612,000).

19. INVENTORIES

	2021	2020
	(HK$'000)	
Raw materials	341,062	327,355
Work in progress	59,372	46,705
Finished goods	2,002,367	1,687,379
	2,402,801	2,061,439

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

20. TRADE AND NOTES RECEIVABLES

	2021	2020
	(HK$'000)	
Trade receivables	1,282,135	1,163,236
Notes receivable	–	2,905
	1,282,135	1,166,141
Impairment of trade receivables	(34,725)	(31,484)
	1,247,410	1,134,657

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:

	2021	2020
	(HK$'000)	
Within 3 months	1,171,109	1,064,257
3 to 6 months	39,751	39,776
6 months to 1 year	30,388	18,433
Over 1 year	6,162	9,286
	1,247,410	1,131,752

20. TRADE AND NOTES RECEIVABLES (Continued)

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

	2021	2020
	(HK$'000)	
At beginning of year	31,484	28,164
Impairment losses, net	4,474	1,431
Exchange realignment	(1,233)	1,889
At end of year	**34,725**	**31,484**

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 2021

	Within 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Expected credit loss rate	0.09%	4.13%	7.80%	82.69%	2.71%
Gross carrying amount (HK$'000)	1,172,121	41,465	32,958	35,591	1,282,135
Expected credit losses (HK$'000)	**1,012**	**1,714**	**2,570**	**29,429**	**34,725**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

20. TRADE AND NOTES RECEIVABLES (Continued)

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**

21. PREPAYMENTS AND OTHER RECEIVABLES

	2021	2020
	(HK$'000)	
Prepayments	141,958	103,168
Other receivables	341,787	271,287
Value added tax ("VAT") recoverable	99,581	57,611
Income tax receivable	58,625	32,624
	641,951	464,690

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 2021 and 2020, the loss allowance was assessed to be minimal.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
	(HK$'000)	
Call options over non-controlling interests with an expiration date within one year	10,606	–
Wealth investment products	7,218	6,994
	17,824	**6,994**

The above call options were classified as financial assets at fair value through profit or loss as their expiration date is within one year.

The above wealth investment products were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. They were placed with licensed financial institution in Mainland China and can be redeemed at any time.

23. CASH AND CASH EQUIVALENTS

	Notes	2021	2020
		(HK$'000)	
Cash and bank balances		1,094,479	1,718,854
Time deposits	(i)	1,154,409	–
		2,248,888	**1,718,854**
Less: Pledged deposits:			
Pledged for long term bank loans	28(b)	(330,316)	–
Pledged for certain standby letter of credit and guarantee		(812,666)	(25,702)
Accrued interest of pledged deposits	(i)	(18,493)	–
Cash and cash equivalents		**1,087,413**	**1,693,152**

Note (i): The time deposits held by the Group as of 31 December 2021 bear interest at 2.70% to 3.91% per annum with a duration of 36 months. These deposits are measured at amortised cost and interest income from these time deposits is measured using the effective interest rate method.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

23. CASH AND CASH EQUIVALENTS (Continued)

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

	2021	
	Assets	Liabilities
	(HK$'000)	
Forward currency contracts		
– designated as hedging instruments	40,546	4,260

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

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

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 2021						
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	70,186	70,186	70,186	70,186	–	280,744
Average forward rate (US$/RMB)	6.4161	6.4568	6.4973	6.5372	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	222,358	–	–	–	–	222,358
Average forward rate (EUR/RMB)	8.2712	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	27,788	38,734	41,260	47,155	14,315	169,252
Average forward rate (GBP/EUR)	1.0604	0.9311	0.8619	0.8653	0.8680	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	4,000	5,732	6,209	6,090	2,090	24,121
Average forward rate (CHF/EUR)	0.9432	0.9437	0.9443	0.9447	0.9449	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	18,430	23,526	23,953	24,569	23,811	114,289
Average forward rate (EUR/JPY)	0.0077	0.0078	0.0078	0.0077	0.0077	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	7,592	–	–	–	–	7,592
Average forward rate (PLN/EUR)	0.2206	–	–	–	–	

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

24. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Group holds the following foreign exchange forward contracts: (Continued)

	Maturity					
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	Total
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	4,910	–	–	–	–	4,910
Average forward rate (EUR/GBP)	1.117	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	4,950	6,806	7,424	8,662	1,856	29,698
Average forward rate (NOK/EUR)	0.1004	0.1001	0.0996	0.0991	0.0987	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	7,688	–	–	–	–	7,688
Average forward rate (EUR/PLN)	0.2206	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	9,049	15,081	14,478	15,685	4,223	58,516
Average forward rate (SEK/EUR)	0.1002	0.1001	0.0999	0.0998	0.0997	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	35,093	35,093	35,093	11,698	–	116,977
Average forward rate (USD/CAD)	1.2382	1.2395	1.2422	1.2432	–	

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
	(HK$'000)		
As at 31 December 2021			
Foreign currency forward contracts	831,908	40,546	Derivative financial instruments (assets)
Foreign currency forward contracts	201,061	(4,260)	Derivative financial instruments (liabilities)

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 2021		
Highly probable forecast sales	26,997	9,289

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			Hedge ineffectiveness recognised in profit or loss	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 2021									
Highly probable forecast sales	24,044	(3,861)	20,183	1,249	Other income and gains	(12,807)	1,913	(10,894)	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:

	2021	2020
	(HK$'000)	
Within 3 months	1,368,263	1,186,600
3 to 12 months	261,248	261,273
1 to 2 years	3,297	5,332
2 to 3 years	3,074	1,483
Over 3 years	751	758
	1,636,633	**1,455,446**

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 bills payables approximate to their fair values due to their short term maturity.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

26. OTHER PAYABLES AND ACCRUALS

	Notes	2021	2020
		(HK$'000)	
Other payables	(a)	245,568	235,874
Contract liabilities	(b)	124,755	146,226
Accruals		534,704	526,463
		905,027	**908,563**

Note (a): Other payables are non-interest-bearing and repayable on demand, including a put option over non-controlling interests of HK$6,487,000 (2020: nil).

Note (b): Details of contract liabilities are as follows:

	31 December 2021	31 December 2020
	(HK$'000)	
Short-term advances from customers		
Sale of goods	124,591	146,043
Rendering of testing services	164	183
	124,755	**146,226**

Contract liabilities include short-term advances received to deliver goods and render testing services. The decrease in contract liabilities in 2021 was mainly due to the decrease 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 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 and 1 January 2021	118,106
Additional provision	85,246
Amounts utilised	(47,581)
Exchange realignment	(2,898)
Balance at 31 December 2021	152,873
Portion classified as current liabilities	99,003
Non-current portion	53,870

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 2021, the amount of product warranties was HK$46,666,000.

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 2021, the amount of product liabilities was HK$106,207,000.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

		As at 31 December 2021		As at 31 December 2020	
		Maturity	HK$'000	Maturity	HK$'000
Current					
Bank overdrafts – secured	Note (a)	2022	301,238	2021	291,772
Bank overdrafts – unsecured	Note (a)	2022	156	2021	283
Current portion of long-term bank loans – unsecured		2022	489,357		–
Current portion of long-term bank loans – secured	Note (b)		–	2021	1,690,214
Bank borrowings – secured	Note (b)	2022	334,013	2021	4,135
Bank borrowings – unsecured		2022	97,872		–
Promissory note	Note (c)	2022	468	2021	465
			1,223,104		1,986,869
Non-current					
Bank borrowings – secured	Note (b)	2023-2024	2,294,380	2022-2023	548,187
Bank borrowings – unsecured			–	2022	237,083
Promissory note	Note (c)		–	2022	465
			2,294,380		**785,735**
Total			**3,517,484**		**2,772,604**

Note (a): The bank overdraft facilities amounted to HK$383,832,000 of which HK$301,394,000 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 2021, certain of the Group's bank loans are secured by:

(i) standby letters of credit and letters of guarantee from certain banks issued by a subsidiary of the Group;

(ii) the guarantee from the Company;

(iii) certain machinery amounting to HK$5,834,000; and

(iv) the pledge of certain of the Group's time deposits amounting to HK$330,316,000.

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.

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

Note (d): The effective interest rates of the bank loans and other borrowings range from 0.59% to 3.1% (2020: 1.05% to 6%).

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

	2021	2020
	(HK$'000)	
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year	1,223,104	1,986,869
In the second year	220,062	774,925
In the third to fifth years, inclusive	2,074,318	10,810
	3,517,484	**2,772,604**

29. DEFINED BENEFIT PLAN LIABILITIES

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 2021.

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

	2021	2020
Discount rate (%)	2.4	2.0
Current healthcare cost trend rate (%)	6.5	5.8
Ultimate healthcare cost trend rate (%)	4.5	5.0

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

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)
2021				
Discount rate	0.5	(153)	0.5	165
Healthcare trend rate	1.0	121	1.0	(122)
2020				
Discount rate	0.5	189	0.5	204
Healthcare trend rate	1.0	127	1.0	(146)

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:

	2021	2020
	(HK$'000)	
Interest cost	85	140
Net benefit cost	**85**	**140**
Recognised in administrative expenses	**85**	**140**

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

POST-RETIREMENT BENEFIT OBLIGATIONS (Continued)

The movements in the present value of the defined benefit obligations are as follows:

	2021	2020
	(HK$'000)	
At 1 January	(4,620)	(5,832)
Interest cost	(85)	(140)
Remeasurement effects recognised in other comprehensive income	490	1,210
Benefits paid directly by the Group	373	116
Exchange differences on a foreign plan	(29)	26
At 31 December	**(3,871)**	**(4,620)**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

29. DEFINED BENEFIT PLAN LIABILITIES (Continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2021

	1 January 2021	Cost charged to profit or loss: Net interest expense	Cost charged to profit or loss: Sub-total included in profit or loss	Benefit paid	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in demographic assumptions	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in financial assumptions	Remeasurement gains/(losses) in other comprehensive income: Experience adjustments	Remeasurement gains/(losses) in other comprehensive income: Sub-total included in other comprehensive income	Exchange difference	31 December 2021
	(HK$'000)									
Benefit obligations	(4,620)	(85)	(85)	373	412	93	(15)	490	(29)	(3,871)
Benefit liabilities	**(4,620)**	**(85)**	**(85)**	**373**	**412**	**93**	**(15)**	**490**	**(29)**	**(3,871)**

2020

	1 January 2020	Cost charged to profit or loss: Net interest expense	Cost charged to profit or loss: Sub-total included in profit or loss	Benefit paid	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in demographic assumptions	Remeasurement gains/(losses) in other comprehensive income: Actuarial changes arising from changes in financial assumptions	Remeasurement gains/(losses) in other comprehensive income: Experience adjustments	Remeasurement gains/(losses) in other comprehensive income: Sub-total included in other comprehensive income	Exchange difference	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)**

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	Leases	Accruals	Losses available for offsetting against future taxable profits	Unrealised profit	Others	Total
				(HK$'000)			
As at 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)
Credited 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 and 1 January 2021	11,389	33,520	34,691	12,275	60,589	21,017	173,481
Credited/(charged) to profit or loss (note 11)	1,695	21,489	13,377	17,523	16,943	4,741	75,768
Charged to other comprehensive income	–	–	–	–	–	611	611
Exchange realignment	(620)	(592)	321	(182)	(8)	(394)	(1,475)
As at 31 December 2021	**12,464**	**54,417**	**48,389**	**29,616**	**77,524**	**25,975**	**248,385**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

30. DEFERRED TAX (Continued)

DEFERRED TAX LIABILITIES:

	Withholding tax on undistributed profits	Depreciation	Leases	Other intangible assets	Others	Total
	(HK$'000)					
At 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)
Charge to other comprehensive income	–	–	–	–	605	605
Exchange realignment	2,887	2,997	1,312	34,474	(1,185)	40,485
At 31 December 2020 and 1 January 2021	19,721	29,387	31,154	560,658	4,833	645,753
Charged/(credited) to profit or loss (note 11)	–	(448)	21,179	(8,340)	9,112	21,503
Charge to other comprehensive income	–	–	–	–	2,559	2,559
Exchange realignment	1,202	2,875	(426)	1,732	(982)	4,401
At 31 December 2021	**20,923**	**31,814**	**51,907**	**554,050**	**15,522**	**674,216**

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 GCPC and its subsidiaries, all of which are directly or indirectly controlled by GBHK, profits earned by the aforesaid subsidiaries in 2021 will not be appropriated to GBHK in 2020 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 2021.

30. DEFERRED TAX (Continued)

At 31 December 2021, 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$2,312,696,000 at 31 December 2021 (2020: HK$2,005,040,000).

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:

	2021	2020
	(HK$'000)	
Reflected in the consolidated statement of financial position:		
– Deferred tax assets	85,109	98,237
– Deferred tax liabilities	(510,940)	(570,509)

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

	2021	2020
	(HK$'000)	
Tax losses	22,232	71,367

The Group has tax losses arising in Germany of HK$2,724,000 (2020: HK$18,762,000) 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$74,000 (2020: HK$48,637,000) 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$19,434,000 (2020: HK$3,968,000) that will expire in five to ten years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above item as it is not considered probable that taxable profits will be available against which the above items can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

31. OTHER LIABILITIES

Included in other liabilities is employee compensation of HK$2,129,000 (2020: HK$1,872,000) of overseas subsidiaries.

32. SHARE CAPITAL

	As at 31 December 2021	As at 31 December 2020
	(HK$'000)	
Issued and fully paid:		
1,668,031,000 (2020: 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	1,668,023	16,680	3,320,401	3,337,081
At 31 December 2020 and 1 January 2021	1,668,023	16,680	3,320,401	3,337,081
Share options exercised (note(a))	8	–	10	10
At 31 December 2021	1,668,031	16,680	3,320,411	3,337,091

Note (a): The subscription rights attaching to 8,000 share options were exercised at the subscription prices of HK$0.96 per share, resulting in the issue of 8,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$7,680.

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2020	4.087	211,280
Cancelled during the year	4.200	(96,650)
Forfeited during the year	4.068	(5,550)
At 31 December 2020 and 1 January 2021	3.984	109,080
Forfeited during the year	3.750	(2,400)
At 31 December 2021	**3.989**	**106,680**

No share options were exercised or cancelled during the years ended 31 December 2021 and 2020.

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:

2021

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
3,267	3.75	7 October 2018 to 6 October 2025
3,267	3.75	7 October 2019 to 6 October 2025
3,267	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
7,340	3.75	23 May 2022 to 22 May 2029
11,010	3.75	23 May 2023 to 22 May 2029
18,350	3.75	23 May 2024 to 22 May 2029
106,680		

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

33. SHARE OPTION SCHEME (Continued)

(A) 2010 SHARE OPTION SCHEME (Continued)

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		

(B) 2020 SHARE OPTION SCHEME

	Weighted average exercise price	Number of options
	HK$ per share	'000
At 1 January 2020	–	–
Granted and accepted during the year	0.969	31,627
At 31 December 2020 and 1 January 2021	0.969	31,627
Forfeited during the year	0.988	(2,200)
Exercised during the year	0.960	(8)
At 31 December 2021	0.966	29,419

33. SHARE OPTION SCHEME (Continued)

(B) 2020 SHARE OPTION SCHEME (Continued)

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

2021

Number of options	Exercise price	Exercise period
'000	HK$ per share	
280	0.96	28 August 2020 to 27 August 2027
93	0.96	28 August 2021 to 27 August 2027
93	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
5,316	0.96	27 September 2022 to 27 March 2028
216	0.96	28 May 2021 to 27 May 2028
324	0.96	28 May 2022 to 27 May 2028
540	0.96	28 May 2023 to 27 May 2028
2,564	0.96	23 May 2022 to 22 May 2029
3,846	0.96	23 May 2023 to 22 May 2029
6,409	0.96	23 May 2024 to 22 May 2029
860	1.01	11 December 2023 to 10 December 2030
1,291	1.01	11 December 2024 to 10 December 2030
2,151	1.01	11 December 2025 to 10 December 2030
29,419		

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.80 per share (2020: No share options were exercised).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

33. SHARE OPTION SCHEME (Continued)

(B) 2020 SHARE OPTION SCHEME (Continued)

2020

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)

The Group overall recognised a share option expense of HK$35,540,000 (2020: HK$43,209,000) for the year ended 31 December 2021.

The Group did not grant share option for the year ended 31 December 2021. The fair value of the share options granted during the year ended 31 December 2020 was HK$11,754,000, of which the Group recognised share option expenses of HK$1,205,000.

The fair value of equity-settled share options granted during 2020 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
Fair value under binomial model (HK$)	9,336,000	2,418,000
Dividend yield (%)	–	–
Spot stock price (HK$ 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 risk-free rate for periods within the contractual life of the option is based on the yield of Hong Kong Exchange Fund Notes. 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.

The 8,000 share options exercised during the year resulted in the issue of 8,000 ordinary shares of the Company and new share capital of HK$80 (before issue expenses), as further detailed in note 32 to the financial statements.

At the end of the reporting period, the Company had 106,680,000 and 29,419,167 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 136,099,167 additional ordinary shares of the Company and additional share capital of HK$1,361,000 and share premium of HK$452,707,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 106,580,000 and 28,768,500 share options outstanding under the 2010 Share Option Scheme and 2020 Share Option Scheme respectively, which represented approximately 6.40% and 1.76% of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2021, 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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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$213,708,000 (2020: HK$67,939,000) and HK$213,708,000 (2020: HK$67,939,000), 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:

2021

	Interest-bearing bank loans and other borrowings	Lease liabilities
	(HK$'000)	
At 1 January 2021	2,772,604	218,777
Changes from financing cash flows	741,779	(126,896)
New leases	–	213,708
Interest expense	–	9,278
Interest paid classified as operating cash flows	–	(9,278)
Covid-19-related rent concessions from lessors	–	(97)
Foreign exchange realignment	3,101	(4,588)
	3,517,484	**300,904**

2020

	Interest-bearing bank loans and other borrowings	Lease liabilities
	(HK$'000)	
At 1 January 2020	2,753,746	255,196
Changes from financing cash flows	15,729	(123,100)
New leases	–	68,908
Modification	–	(969)
Interest expense	–	9,867
Covid-19-related rent concessions from lessors	–	(3,605)
Foreign exchange realignment	3,129	12,480
	2,772,604	**218,777**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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

(c) Total cash outflow for leases:

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

	2021	2020
	(HK$'000)	
Within operating activities	42,139	40,505
Within financing activities	126,896	123,100
	169,035	**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.

39. COMMITMENTS

The Group had the following commitments as at 31 December:

(A) CAPITAL COMMITMENTS

The Group had the following capital commitments:

	2021	2020
	(HK$'000)	
Contracted but not provided for:		
Property plant and equipment	10,012	2,915
Capital contributions payable to an associate	9,787	–
	19,799	**2,915**

(B) OTHER COMMITMENT

	2021	2020
	(HK$'000)	
Upfront fees of a term loan facilities	**–**	**3,101**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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:

	2021	2020
	(HK$'000)	
Sales of goods to related parties (note (a))		
CAGB and its subsidiaries#	7,817	12,156
Purchase of goods from related parties (note (b))		
GCQT	714	3,165
Service charge from a related party (note (c))		
GCQT	568	419
Rental expenses to a related party (note (d))		
GGPX#	15,591	13,936

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.

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 2021 was HK$15,591,000. At 31 December 2021, the Group recognised right-of-use assets of HK$49,525,000 and lease liabilities of HK$49,525,000. 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.

	2021	2020
	(HK$'000)	
Amounts due from related parties:		
CAGB and its subsidiaries#	6,201	4,739
GBMS	–	1,765
GCQT	574	28
	6,775	**6,532**
Right-of-use assets in relation to buildings recognised by the Group as a lessee to a related party		
GGPX	49,525	13,403
Lease liabilities due to a related party		
GGPX	49,525	14,826
Amounts due to related parties:		
GBMS	115	2,753
GCTP	489	474
	604	**3,227**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

40. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(D) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2021	2020
	(HK$'000)	
Short term employee benefits	51,797	54,582
Equity-settled share option expense	24,501	34,691
Post-employment benefits	737	555
Total compensation paid to key management personnel	**77,035**	**89,828**

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	
	2021	2020	2021	2020
	(HK$'000)			
Financial assets				
Derivative financial instruments	40,546	17,683	40,546	17,683
Financial assets at fair value through profit or loss – call options over non-controlling interests	10,606	1,716	10,606	1,716
Financial assets at fair value through profit or loss – wealth investment products	7,218	6,994	7,218	6,994
	58,370	**26,393**	**58,370**	**26,393**
Financial liabilities				
Derivative financial instruments	4,260	6,003	4,260	6,003
Interest-bearing bank loans and other borrowings (other than lease liabilities)	3,517,484	2,772,604	3,509,513	2,767,520
	3,521,744	**2,778,607**	**3,513,773**	**2,773,523**

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2021	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 – wealth investment products	7,218	–	7,218	–
Financial assets at fair value through profit or loss – call options over non-controlling interests	10,606	–	–	10,606
Derivative financial instruments	40,546	–	40,546	–
	58,370	**–**	**47,764**	**10,606**

	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**

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:

	2021	2020
	(HK$'000)	
At 1 January	1,716	672
Remeasurement recognised in other income/(expenses)	9,407	915
Purchases	–	–
Disposals	–	–
Exchange realignment	(517)	129
At 31 December	**10,606**	**1,716**

During the year ended 31 December 2021, 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 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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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

FAIR VALUE HIERARCHY (Continued)

Liabilities for which fair values are disclosed:

	31 December 2021	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	4,260	–	4,260	–
Interest-bearing bank loans and other borrowings (other than lease liabilities)	3,509,513	–	3,509,513	–
	3,513,773	**–**	**3,513,773**	**–**

	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**	**–**

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 2021

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
		(HK$'000)	
Trade and notes receivables	–	1,247,410	1,247,410
Financial assets included in prepayments and other receivables (note 21)	–	499,993	499,993
Financial assets at fair value through profit and loss	17,824	–	17,824
Due from related parties	–	6,775	6,775
Derivative financial instruments	40,546	–	40,546
Other long-term assets (note 18)	–	11,294	11,294
Pledged bank deposits	–	1,161,475	1,161,475
Cash and cash equivalents	–	1,087,413	1,087,413
	58,370	4,014,360	4,072,730

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

FINANCIAL LIABILITIES

As at 31 December 2021

	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)	–	245,568	245,568
Trade and bills payables	–	1,636,633	1,636,633
Interest-bearing bank loans and other borrowings	–	3,517,484	3,517,484
Derivative financial instruments	4,260	–	4,260
Due to related parties	–	604	604
	4,260	**5,400,289**	**5,404,549**

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**

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 2021	+5%/–5%	(4,530)/4,530
Year ended 31 December 2020	+5%/–5%	(5,703)/5,703

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

31 DECEMBER 2021

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$'000)
Year ended 31 December 2021		
If US$ strengthens against RMB	5%	23,866
If US$ weakens against RMB	(5%)	(23,866)
If EUR strengthens against RMB	5%	26,395
If EUR weakens against RMB	(5%)	(26,395)
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)

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	(HK$'000)				
Trade receivables*	–	–	–	1,247,410	1,247,410
Financial assets included in prepayments and other receivables					
– Normal**	341,787	–	–	–	341,787
Pledged bank deposits					
– Not yet past due	1,161,475	–	–	–	1,161,475
Cash and cash equivalents					
– Not yet past due	1,087,413	–	–	–	1,087,413
	2,590,675	**–**	**–**	**1,247,410**	**3,838,085**

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK (Continued)

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**

* 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 2021

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 2021

	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	–	289,595	996,467	2,363,934	–	3,649,996
Lease liabilities	–	29,754	69,224	197,567	4,358	300,903
Trade and bills payables	1,368,265	268,368	–	–	–	1,636,633
Derivative financial instruments	–	1,175	2,785	300	–	4,260
Due to related parties	604	–	–	–	–	604
Other payables	245,568	–	–	–	–	245,568
	1,614,437	**588,892**	**1,068,476**	**2,561,801**	**4,358**	**5,837,964**

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**

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 monetary assets, including cash and cash equivalents, pledged time deposits 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:

	2021	2020
	(HK$'000)	
Trade and bills payables	1,636,633	1,455,446
Other payables and accruals	905,027	908,563
Interest-bearing bank loans and other borrowings	3,517,484	2,772,604
Less: Monetary assets	2,256,106	1,700,146
Net debt	3,803,038	3,436,467
Equity attributable to owners of the parent	6,060,951	5,749,444
Less: Hedging reserve	11,394	2,105
Adjusted capital	6,049,557	5,747,339
Capital and net debt	**9,852,595**	**9,183,806**
Gearing ratio	**39%**	**37%**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2021

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:

	2021	2020
	(HK$'000)	
NON-CURRENT ASSETS		
Investments in subsidiaries	3,845,098	3,809,860
Total non-current assets	3,845,098	3,809,860
CURRENT ASSETS		
Other receivables	336	337
Due from subsidiaries	649,076	612,117
Cash and cash equivalents	6,035	7,079
Total current assets	655,447	619,533
CURRENT LIABILITIES		
Short term loan	–	381,432
Accrued expenses	–	153
Due to a subsidiary	1,448,219	922,834
Total current liabilities	1,448,219	1,304,419
NET CURRENT LIABILITIES	(792,772)	(684,886)
TOTAL ASSETS LESS CURRENT LIABILITIES	3,052,326	3,124,974
Net assets	3,052,326	3,124,974
EQUITY		
Share capital	16,680	16,680
Reserves (note)	3,035,646	3,108,294
Total equity	**3,052,326**	**3,124,974**

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 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
Balance at 31 December 2020 and 1 January 2021	3,320,401	156,865	(368,972)	3,108,294
Loss for the year	–	–	(108,196)	(108,196)
Share issue expenses	10	(2)	–	8
Equity-settled share option arrangements	–	35,540	–	35,540
As at 31 December 2021	**3,320,411**	**192,403**	**(477,168)**	**3,035,646**

45. EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the end of the reporting period.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2022.

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				
	2021	2020	2019	2018	2017
	(HK$'000)				
Results					
Revenue	9,692,137	8,304,967	8,777,142	8,629,115	7,142,566
Cost of sales	(5,696,909)	(4,636,930)	(4,996,484)	(4,967,782)	(4,395,786)
Gross profit	3,995,228	3,668,037	3,780,658	3,661,333	2,746,780
Other income and gains	80,800	90,048	74,116	98,303	41,115
Selling and distribution expenses	(2,476,241)	(2,131,438)	(2,274,966)	(2,208,873)	(1,332,515)
Administrative expenses	(1,426,458)	(1,145,615)	(1,170,329)	(1,207,135)	(1,103,495)
Other expenses	(7,266)	(50,972)	(19,544)	(16,803)	(39,429)
Operating Profit	166,063	430,060	389,935	326,825	312,456
Finance Income	35,074	5,956	4,543	3,867	4,617
Finance Costs	(90,594)	(114,068)	(141,856)	(123,576)	(65,506)
Share of profits and losses of a joint venture	1,277	(1,143)	339	407	(29)
Share of profits and losses of an associate	(8)	(105)	(131)	–	–
Profit before tax	111,812	320,700	252,830	207,523	251,538
Income tax credit/(expense)	15,749	(62,780)	(50,262)	(40,692)	(67,132)
Profit for the year	127,561	257,920	202,568	166,831	184,406
Attributable to:					
Owners of the parent	123,817	256,574	202,194	163,764	179,350
Non-controlling interests	3,744	1,346	374	3,067	5,056
	127,561	**257,920**	**202,568**	**166,831**	**184,406**

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2021	2020	2019	2018	2017
	(HK$'000)				
Total assets	13,171,712	11,868,787	10,876,962	10,618,485	10,964,571
Total liabilities	(7,074,208)	(6,087,218)	(5,790,828)	(5,655,379)	(5,798,704)
Non-controlling interests	(36,553)	(32,125)	(48,661)	(48,386)	(57,983)
	6,060,951	**5,749,444**	**5,037,473**	**4,914,720**	**5,107,884**

Goodbaby International

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

cybex gb evenflo