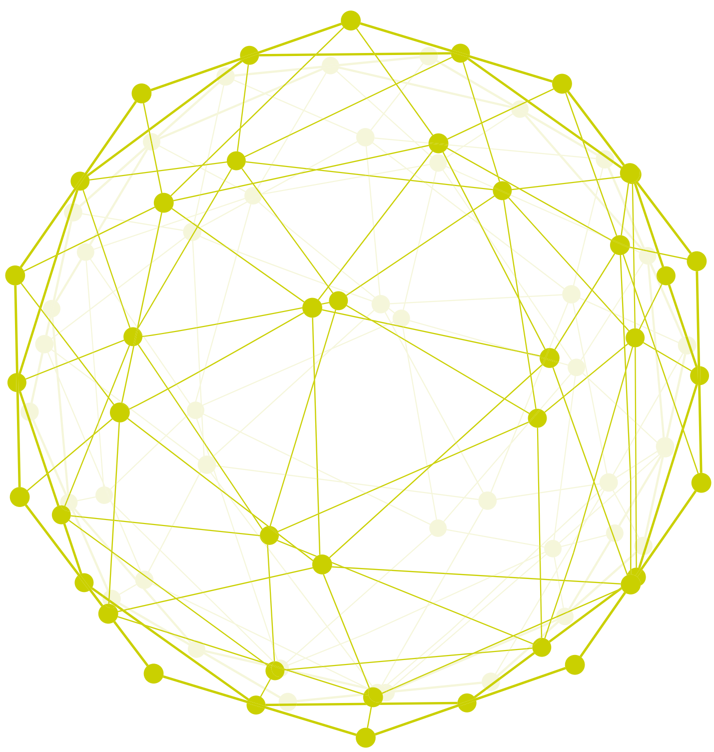
Goodbaby International

2022
Annual Report

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



cybex gb evenflo

Goodbaby

A Leading Juvenile Products Company

Corporate Information

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Song Zhenghuan *(Chairman)*
Mr. Liu Tongyou *(current Chief Executive Officer)*
Mr. Martin Pos *(former Chief Executive Officer until 21 March 2023)*
Mr. Xia Xinyue
Mr. Michael Nan Qu

NON-EXECUTIVE DIRECTORS

Ms. Fu Jingqiu
Mr. Ho Kwok Yin, Eric

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Chiang Yun
Mr. Shi Xiaoguang
Mr. Jin Peng
Mr. So Tak Young

AUDIT COMMITTEE

Ms. Chiang Yun *(Chairlady)*
Mr. Shi Xiaoguang
Mr. So Tak Young

NOMINATION COMMITTEE

Ms. Chiang Yun *(Chairlady)*
Mr. Shi Xiaoguang
Mr. So Tak Young

REMUNERATION COMMITTEE

Ms. Chiang Yun *(Chairlady)*
Mr. Shi Xiaoguang
Mr. So Tak Young

AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
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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

CORPORATE INFORMATION

REGISTERED OFFICE

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

HEAD OFFICE

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Jiangsu Province, 215331
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Tung Chiu Commercial Centre
193 Lockhart Road
Wan Chai
Hong Kong

COMPANY SECRETARY

Ms. Ho Wing Tsz, Wendy

AUTHORIZED REPRESENTATIVES

Mr. Song Zhenghuan
Ms. Ho Wing Tsz, Wendy

WEBSITE

www.gbinternational.com.hk

STOCK CODE

1086

Chairman's Statement

CHAIRMAN'S STATEMENT

"Despite extremely volatile global environment, the Group's profitability began to rebound in the second half of the year, reflecting the resilience of the Group's overall operations."

Dear shareholders and investment analysts,

The year 2022 saw a downturn in the global economy that seriously affected consumer travel and consumer confidence. It was the result of a series of factors that included the rampant pandemic, geopolitical conflicts, supply chain disruptions and high inflation. Both the revenue and profit of the Group ("Goodbaby International Holdings Limited, together with its subsidiaries") were severely affected as a result. Under the direct impact of strict pandemic lockdowns and control measures, our business in the China market recorded a significant decline. However, the Group's diversified brand portfolio and globally balanced footprint have minimized risks associated with any single territory. During the Period ("the year ended 31 December 2022"), the Group undertook measures to reduce costs and increase efficiency. Despite a decline in revenue, our profitability began to rebound in the second half of the year, reflecting the resilience of the Group's overall operations.

In 2022, the Group recorded sales revenue of approximately HK$8,292.2 million, representing a decrease of 14.4% (a 10.9% decrease on a constant currency basis) from approximately HK$9,692.1 million in 2021. Due to this decline in revenue, the Group's gross profit also recorded a year-on-year decrease. These factors placed the Group's profitability under pressure, and we experienced a relatively significant decline in profitability.

CHAIRMAN'S STATEMENT

"CYBEX further enhanced its leading position as a premium global "technical-lifestyle" brand."

CYBEX achieved sales revenue of approximately HK$3,285.3 million, representing a year-on-year decrease of 2.9% (a 7.3% increase on a constant currency basis). Consumer demand for CYBEX remained strong, contributing to a very positive start in the first quarter with strong revenue growth. From the second quarter on, however, revenue was hampered by continuing global supply chain disruptions, unfavorable exchange rate fluctuations and regional geopolitical conflicts.

Overall, CYBEX outperformed its competitors and continued to increase its market share. Following its launch in 2021 of the world's first integrated full body airbag car seat Anoris T i-Size, during the Period this product received the highest rating in the test organized by Stiftung Warentest (德國商品測試基金會) and Allgemeiner Deutscher Automobil Club (德國汽車俱樂部, ADAC). Anoris has significantly raised the threshold for industry innovation and consolidated the position of CYBEX as an industry benchmark for innovation. During the Period, CYBEX products received one "Very Good" rating and five "Good" ratings in the ADAC test, four Red Dot Design Awards (紅點設計獎), and five German Design Awards (德國設計獎), reinforcing the brand's innovation leadership position. CYBEX's innovative and fashionable product portfolio has attracted numerous enthusiastic consumers. CYBEX has also been showcasing and enhancing its brand strength through its own flagship stores and via social media marketing, and continuing to expand its omni-channel distribution network around the world to tap market potential there and further enhance its leading position as a premium global "technical-lifestyle" brand.

CHAIRMAN'S STATEMENT

"In the face of critical developments, gb continued to right-size its operations and focus on business transformation."

gb experienced unprecedented challenges during the Period. The brand recorded sales revenue of approximately HK$1,473.4 million, a year-on-year decrease of 35.9% (a 34.0% decrease on a constant currency basis). During the Period, in its key China market, strict pandemic prevention and control measures led to offline retail store closures, a sharp decrease in offline traffic and logistics disruptions, all of which seriously weakened consumer confidence and hit the brand's online and offline businesses hard. At the same time, the continued decline in China's birth rate has been putting further pressure on the brand's business development.

In the face of these critical developments, gb continued to right-size its operations and focus on business transformation. Its efforts led to improvements in the brand's gross profit margin year-on-year, as well as continuous enhancements to its product research and development ("R&D") and design capabilities. During the Period, the brand won a total of eight world-class industrial design awards, namely five IDA Design Awards from the United States, two G-MARK Design Awards from Japan, and one iF Design Award from Germany. It further upgraded its new generation of flagship stores, and enriched the brand's retail strategy.

CHAIRMAN'S STATEMENT

"Evenflo achieved record revenue due to its strong growth from the digital channels and innovative products that were warmly welcomed by the market and consumers."

Evenflo achieved sales revenue of approximately HK$2,304.7 million in the Period, representing a year-on-year increase of 16.2% (a 13.9% increase on a constant currency basis). Driven by outstanding performances by its range of innovative products, Evenflo outperformed the overall US juvenile market, increasing its market share. The brand's digital channel grew strongly, and its new products were warmly welcomed by the market and consumers. However, continued global supply chain disruptions and high external costs during the Period, coupled with the impact of widespread destocking by major retailers in the United States in the fourth quarter, meant that the full revenue potential of the brand was not realized, and profitability was affected.

As the market has recognized Evenflo's innovative products and the brand has increased its market share, the average selling price of Evenflo products has increased significantly, as have its brand image and premium. Evenflo will continue to upgrade its product portfolio, strengthen its brand marketing strategies, and improve its digital operations. In particular, it will fully utilize the Group's integrated "One-Dragon" platform resources and optimize the synergies between the Group's manufacturing bases in China, the United States and Mexico to maintain strong growth momentum and further enhance its market position.

CHAIRMAN'S STATEMENT

"The Group built strong competitive strength by leveraging its vertically integrated One-Dragon platform."

During the Period, our revenue from the Blue Chip business decreased due to weaker consumer demand and lower orders as a result of destocking by major customers and retailers. Regardless, the Group will continue to provide its Blue Chip customers with excellent service, manufacturing support, quality management, on-time delivery and new product development that efficiently meets their needs. The Group maintains stable relationships with its Blue Chip customers.

The Group's R&D and innovation activities have continued to progress, with several new disruptive products entering the engineering phase of development and a new batch of innovative projects being launched during the Period. The Group applied for 410 patents in the Period, bringing its cumulative total of patent applications to 12,334. Some of the Group's products achieved the highest rating in the history of ADAC tests, and took out four Red Dot Design Awards, one iF Design Award (iF設計獎), five IDA Design Awards, two G-Mark Design Awards (G-Mark設計獎) and five German Design Awards. This total of seventeen world-class awards demonstrate the Group's innovation leadership in the global juvenile products industry.

The Group made good progress with its manufacturing supply chain management during the Period. It further improved its organizational structure, completed its management system and upgraded its technical capability. Its digitalization process has been accelerated, its team cohesion enhanced, and its ESG framework further implemented. The Group's supply chain function has achieved excellent results in quality, delivery and service, coping effectively with the challenges of the pandemic and many other uncertainties and providing strong momentum for our business.

In the field of global standard-setting, the Group's experts are the rotating chairman of the ISO/TC 310 Children's Products Technical Committee, and are entitled to convene two of the four ISO/TC 310 working groups. The Group's experts have been working with global partners to formulate international standards for various types of children's products. During the Period, the Group's experts led or participated in the formulation and revision of 40 domestic and international standards, 10 of which have been published. By the end of 2022, the Group's experts had in total been involved in formulating or revising 272 standards, 227 of which have been published.

The Group's Anoris T i-Size car seat received the highest rating in the test organized by independent consumer testing organization ADAC

CHAIRMAN'S STATEMENT

Various negative factors are expected to continue to affect global economic activities in 2023. However, as the Chinese government optimizes its pandemic prevention and control policies, China's economic activities accelerate and the global logistics supply chain situation stabilizes, the economy should gradually recover. This will have a positive impact on the Group's overall business development. Planned management adjustments will further optimize our resource allocation, enabling the Group to focus more closely on quality business development and implement its development strategy.

In the past few years, multiple factors have impacted on the Group's business and led to significant fluctuations. On behalf of the Board, I would like to express my gratitude to our shareholders, employees and partners for their continued trust and support through these times. We will remain true to our original aspirations, working hard to create greater value for our shareholders, our employees, and society as a whole.

We look forward to your continued support.

Thank you!

Song Zhenghuan
Chairman
28 March 2023

Management Discussion & Analysis

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

THE GROUP ACHIEVES PROFITABILITY MOMENTUM DESPITE GLOBAL MACRO ENVIRONMENT CHALLENGES

The Group successfully navigated through many varied challenges that prevailed throughout the Period, including pandemic-related lockdowns in China, dramatic and unprecedented logistics and inflation related costs outside China, continued global supply chain disruptions, a fourth quarter inventory destocking period by North American retailers and overall shaken global consumer confidence due to the pandemic, regional geopolitical conflicts and elevated inflation along with the continued sharp decline in birth rate in China.

Due to these global and regionally specific challenges, the Group's revenue and profitability were both strongly impacted. However, thanks to the strong competitive strengths built on its vertically integrated "One-Dragon" platform of own brands, omni-channel distribution platforms, own manufacturing and operational services, balanced brand mix and geographic footprints, the Group as a whole weathered these unprecedented storms. During the Period, the Group implemented competitive price increases, initiated cost reduction measures and efficiency improvement measures in all business units and focused on profitability improvement and cashflow management while maintaining prudent investments in innovation. As a result, the Group managed to record positive full-year net profit in the extremely volatile global environment and generated an operating profitability rebound and strong operating cashflow in the second half of the year, showcasing the Group's resilience.

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

1. Recorded positive full-year net profit with operating profitability rebound in the second half of 2022 versus the second half of 2021 and versus the first half of 2022 and strong operating cashflow in the second half of 2022;

2. Increased market share in Europe, North America and Japan;

3. Competitive price increases implemented in the second half of the year improved profitability due to the strength of our respective brands;

4. Strength of the Group's One-Dragon vertically integrated platform of own brands, omni-channel distribution platforms, own manufacturing and operational services enabled the Group to absorb significant negative developments and thus outperform competition;

5. Our diversified portfolio of brands and balanced global footprint minimized risk in any one territory and resulted in a strong global competitive advantage;

6. Strategic and dedicated investments in innovation to maintain competitive strength;

7. Continued to extend own D2C online retail platforms in key markets and extended our international wholesale distribution platform.

MANAGEMENT DISCUSSION & ANALYSIS

Our revenue for the Period decreased by 14.4% to approximately HK$8,292.2 million from approximately HK$9,692.1 million for the corresponding period in 2021. During the Period, foreign exchange rate fluctuations impacted the overall revenue growth. On a constant currency basis, our revenue for the Period recorded a 10.9% decrease compared to the corresponding period in 2021. Our reported gross profit decreased by 16.0% to approximately HK$3,355.9 million for the Period from approximately HK$3,995.2 million for the corresponding period in 2021. Our reported operating profit decreased by 39.3% to approximately HK$100.8 million from approximately HK$166.0 million for the corresponding period in 2021 and our reported net profit decreased by 68.6% to approximately HK$40.1 million for the Period from approximately HK$127.6 million for the corresponding period in 2021. Additionally, on a non-GAAP basis, our operating profit decreased by 38.9% to approximately HK$146.9 million for the Period from approximately HK$240.6 million for the corresponding period in 2021 and our net profit decreased by 58.9% to approximately HK$79.0 million for the Period from approximately HK$192.4 million for the corresponding period in 2021.

Summary of the Group's strategic brands and Blue Chip business revenues:

	For the year ended 31 December					
(HK$ million)	2022		2021		Change (%)	Change on a constant currency basis (%)
Group Revenue	$8,292.2		$9,692.1		–14.4%	–10.9%
	Amount	% of Revenue	Amount	% of Revenue	Change (%)	Change on a constant currency basis (%)
Strategic Brands	$7,063.4	85.2%	$7,665.7	79.1%	–7.9%	–3.4%
CYBEX	3,285.3	39.6%	3,384.5	34.9%	–2.9%	7.3%
gb	1,473.4	17.8%	2,298.6	23.7%	–35.9%	–34.0%
Evenflo	2,304.7	27.8%	1,982.6	20.5%	16.2%	13.9%
Blue Chip	$874.7	10.5%	$1,535.5	15.8%	–43.0%	–43.1%

EXECUTIVE SUMMARY

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

- **CYBEX** brand recorded a slight revenue decrease of 2.9% (a 7.3% increase on a constant currency basis) in the Period to approximately HK$3,285.3 million from approximately HK$3,384.5 million for the corresponding period in 2021. Consumer demand remained strong, contributing to very strong revenue growth in the first quarter; however, revenue development was tempered thereafter due to product availability challenges resulting from factory shutdowns in China in the second quarter, ongoing global supply chain disruptions, volatile consumer confidence resulting from geopolitical conflicts in Europe and high inflation, and unfavorable foreign exchange fluctuations. The brand fundamentals remained robust backed by its strong brand position, disruptive and innovative product portfolio and new launches. As a leading premium brand, CYBEX continued to provide unique premium consumer experience by offering creative and quality services and products through its continuous expansion of global omni-channel distribution network, including the successful owned e-commerce platform. During the Period, CYBEX was awarded 1 "very good" rating and 5 "good" ratings in ADAC, 4 Reddot design awards and 5 German Design awards. These were part of its efforts to constantly hone CYBEX's brand image and to provide exceptional and innovative products across a range of consumer touchpoints amidst the external turbulences and disruptions. As a result, CYBEX continued to outperform its competitors and increase its market share in all key markets.

- **gb** brand recorded a decrease in revenue of 35.9% (a 34.0% decrease on a constant currency basis) in the Period to approximately HK$1,473.4 million from approximately HK$2,298.6 million for the corresponding period in 2021. In its key China market, consistent pandemic-related lockdowns and restrictions throughout the Period caused offline store and warehouse closures, significantly disrupted logistic deliveries, suspended wholesale activities and weakened consumer confidence across the country. During the Period, China's birth rate experienced another deep decline. These factors combined severely impacted the brand's revenue both online and offline as well as its profitability. During the Period, the gb brand executed aggressive remediation actions to continue its business right-sizing and brand transformation and focused on profitability improvement and cashflow management. Notwithstanding the challenges during the Period, gb received several international design awards in recognition of its steadfast commitment of continued investment in product development, innovation and design.

- **Evenflo** brand achieved record revenue with a growth rate of 16.2% (a 13.9% increase on a constant currency basis) in the Period to approximately HK$2,304.7 million from approximately HK$1,982.6 million for the corresponding period in 2021. The brand's strong growth momentum, though partially offset by a significant order downturn in the fourth quarter due to overall inventory destocking by major retailers in the United States, was primarily driven by its growth in digital channels and strong consumer acceptance of innovative products, elevated product portfolio and elevated brand image. Evenflo outperformed the competition and increased its market share. The brand absorbed significant excess freight costs during the Period, which was partially offset by competitive price increases implemented in the second half of the year. The successfully improved product mix has contributed to gross margin improvement and average selling price increase.

During the Period, our Blue Chip business recorded a significant revenue decrease of 43.0% (a 43.1% decrease on a constant currency basis) to approximately HK$874.7 million as compared to approximately HK$1,535.5 million for the corresponding period in 2021. The revenue decrease was primarily attributable to order slowdowns caused by customer and retailer inventory destocking due to global logistic challenges and weakening consumer demands amidst a volatile macro environment. The Group's relationship with its Blue Chip customers remained stable.

MANAGEMENT DISCUSSION & ANALYSIS

During the Period, the Group's revenue from other business units including the Group's tactical brands approximated HK$354.1 million as compared to approximately HK$490.9 million in the corresponding period of 2021. The 27.9% decrease (a 28.1% decrease on a constant currency basis) was caused by COVID-19 related impacts combined with continued portfolio rationalization.

OUTLOOK

AS PANDEMIC-RELATED RESTRICTIONS IN CHINA CONTINUE TO BE LIFTED, GLOBAL SUPPLY CHAIN DISRUPTIONS HAVE STABILIZED, AND THE WORLD MACRO ECONOMIC ENVIRONMENT STARTS TO SHOW SIGNS OF RECOVERY, THE GROUP EXPECTS ITS BUSINESS TO REBOUND.

The Group will continue its focused strategy in strategic brands of CYBEX, gb and Evenflo and the ongoing development of the Blue Chip business.

CYBEX will generate robust global revenue growth momentum across all key geographic regions and increase its market share in the post-pandemic era driven by its innovative product portfolio, new and disruptive product launches, new category extensions, strengthened supply chain capabilities and expansion of omni-channels (including national distribution platforms and own digital platforms) in new geographic territories. That said, uncertainties from geopolitical conflict in Europe resulting in consumer insecurities remain a concern.

gb brand will continue to right-size and modernize its online/offline omni-channel structure, and will continue its brand upgrade, expansion of digital and social media-based channels, the reformation of its wholesale distribution channel 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 revenue and market share growth in both online and offline channels based on strong consumer reception to its innovative product portfolio; it will launch new and 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. However, the risk of high inflation in the United States could hamper consumer confidence.

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. We will continue to put strong focus in improving profitability and cashflow management across all our business units.

Our global management team has gained tremendous experience and skills in addressing crisis and turning them into opportunities in our execution of measures to mitigate negative impacts from the pandemic in the past three years. While sticking to our fundamental strategic priorities of brand building, the organization has become swifter and more open to adapt to any unexpected situation and always prepared for the new and the future. The Group has never stopped investments in innovation even in the difficult days and constantly created disruptions that have reshaped the industry as it is fully aware of the importance of this underpinning strength. While we will continue to remain vigilant given the risk of high inflations and ongoing regional geopolitical conflicts and uncertainties it may incur, we are confident that 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 decreased by 14.4% to approximately HK$8,292.2 million from approximately HK$9,692.1 million for the corresponding period in 2021. During the Period, foreign exchange rate fluctuations impacted the overall revenue growth. On a constant currency basis, our revenue for the Period recorded a 10.9% decrease compared to the corresponding period in 2021.

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

	For the year ended 31 December				Change (%)	Change on a constant currency basis (%)
	2022		2021			
(HK$ million)	Revenue	% of revenue	Revenue	% of revenue		
Group's own brand and retailer private label businesses	7,417.5	89.5	8,156.6	84.2	–9.1%	–4.8%
– APAC	2,066.6	24.9	2,994.6	30.9	–31.0%	–28.2%
– EMEA	2,914.4	35.1	2,979.1	30.8	–2.2%	8.2%
– Americas	2,436.5	29.5	2,182.9	22.5	11.6%	9.4%
Blue Chip business	874.7	10.5	1,535.5	15.8	–43.0%	–43.1%
Total	**8,292.2**	**100.0**	**9,692.1**	**100.0**	**–14.4%**	**–10.9%**

MANAGEMENT DISCUSSION & ANALYSIS

The 9.1% decrease (4.8% decrease on a constant currency basis) of the Group's own brands and retailer private label businesses was attributable to the combination result of growth of our strategic brands CYBEX and Evenflo on a constant currency basis, as well as the revenue decline of brand gb, for more information about performances by brand, please refer to Executive Summary of this Management Discussion and Analysis section.

- In region APAC, we recorded revenue from China market of approximately HK$1,616.2 million in the Period against approximately HK$2,515.3 million in the corresponding period in 2021, a decrease of 35.7% (a decrease of 33.7% on a constant currency basis). The decrease in region APAC was mainly attributable to the decrease in revenue from our core strategic brand gb in China. The revenue from APAC markets outside China remained stable on a constant currency basis.

- In region EMEA, we recorded revenue of approximately HK$2,914.4 million for the Period, a decrease of 2.2% (8.2% increase on a constant currency basis) from approximately HK$2,979.1 million for the corresponding period in 2021. The growth in region EMEA on a constant currency basis was mainly attributable to the increase in revenue from our core strategic brand CYBEX.

- In region Americas, we recorded revenue of approximately HK$2,436.5 million in the Period, an increase of 11.6% (9.4% increase on a constant currency basis) from approximately HK$2,182.9 million for the corresponding period in 2021. The increase was mainly attributable to the increase in revenue from our core strategic brand Evenflo.

During the Period, our Blue Chip business recorded a decrease of 43.0% (43.1% decrease on a constant currency basis) to approximately HK$874.7 million as compared to approximately HK$1,535.5 million for the corresponding period in 2021. The revenue decrease was primarily attributable to order slowdowns caused by customer and retailer inventory destocking due to global logistic challenges and weakening consumer demands amidst a volatile macro environment. The Group's relationship with its Blue Chip customers remained stable.

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

Cost of sales decreased by 13.4% to approximately HK$4,936.3 million for the Period from approximately HK$5,696.9 million for the corresponding period in 2021. Gross profit for the Group decreased to approximately HK$3,355.9 million for the Period from approximately HK$3,995.2 million for the corresponding period in 2021, and the gross profit margin decreased by 0.7 percentage points to 40.5% for the Period from approximately 41.2% for the corresponding period in 2021. Gross profit decline was primarily driven by decrease in revenue, caused by ongoing pandemic related lockdowns in China and significant decrease in Blue Chip revenues in the second half of the year, and absorption of input costs partially offset by price increases, while lack of product availability due to global supply chain disruptions and overall destocking by major US retailers in the last quarter suppressed our own brands' revenue in markets outside China. Gross margin slightly declined due primarily to negative impacts from input cost increases, unfavorable forex movements and unfavorable brand revenue mix, which were partially offset by product price increases.

OTHER INCOME AND GAINS

Other income and gains of the Group increased by approximately HK$84.6 million to approximately HK$165.4 million for the Period as compared to approximately HK$80.8 million for the corresponding period in 2021, which was mainly attributable to the increase in foreign exchange gain, the increase in gain on disposal of fixed assets and the increase in fair value gains on call/put options over non-controlling interests.

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 decreased by approximately HK$403.8 million to approximately HK$2,072.4 million for the Period from approximately HK$2,476.2 million for the corresponding period in 2021. The decrease was mainly attributable to:

a) the decrease in rental and commission paid in retail channel to approximately HK$143.2 million for the Period from approximately HK$260.1 million for the corresponding period in 2021;

b) the decrease in marketing expenses to approximately HK$428.5 million for the Period from approximately HK$517.9 million for the corresponding period in 2021;

c) the decrease in personnel costs to approximately HK$576.6 million for the Period, compared to approximately HK$635.1 million in the corresponding period in 2021;

d) the decrease in warehousing and transportation costs to approximately HK$494.8 million for the Period from approximately HK$542.3 million for the corresponding period in 2021; and

e) the decrease in provision for product liabilities costs to approximately HK$34.3 million for the Period from approximately HK$66.4 million for the corresponding period in 2021.

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 decreased by approximately HK$80.9 million to approximately HK$1,345.6 million for the Period from approximately HK$1,426.5 million for the corresponding period in 2021. The decrease was mainly due to:

a) the decrease in personnel costs to approximately HK$513.4 million for the Period from approximately HK$574.1 million for the corresponding period in 2021;

b) the decrease in the R&D costs to approximately HK$407.0 million for the Period from approximately HK$418.9 million for the corresponding period in 2021; and

c) other administrative expenses remaining relatively stable.

MANAGEMENT DISCUSSION & ANALYSIS

OTHER EXPENSES

Other expenses of the Group decreased to approximately HK$2.4 million for the Period from approximately HK$7.3 million for the corresponding period in 2021. Other expenses of the Group decreased by approximately HK$4.9 million, which was mainly attributable to the decrease in foreign exchange loss.

OPERATING PROFIT

As a result of the foregoing, the Group's operating profit decreased by approximately 39.3%, or HK$65.2 million, to approximately HK$100.8 million for the Period from approximately HK$166.0 million for the corresponding period in 2021.

FINANCE INCOME

For the Period, the Group's finance income increased by approximately 22.5%, or HK$7.9 million, to approximately HK$43.0 million from approximately HK$35.1 million for the corresponding period in 2021. The Group's finance income mainly represents interest income from bank deposits.

FINANCE COSTS

For the Period, the Group's finance costs increased by approximately 52.2%, or HK$47.3 million, to approximately HK$137.9 million from approximately HK$90.6 million for the corresponding period in 2021. The increase was mainly attributable to rapid increase of interest rate, especially LIBOR and SOFR.

PROFIT BEFORE TAX

As a result of the foregoing, the profit before tax of the Group decreased to approximately HK$1.2 million for the Period from approximately HK$111.8 million for the corresponding period in 2021.

INCOME TAX

The Group's income tax was a credit of approximately HK$38.9 million for the Period, and the income tax was a credit of approximately HK$15.8 million for the corresponding period in 2021. The increase in the income tax credit 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 68.6% to approximately HK$40.1 million from approximately HK$127.6 million for the corresponding period in 2021.

The non-GAAP profit of the Group decreased by approximately 58.9% to approximately HK$79.0 million for the Period from approximately HK$192.4 million for the corresponding period in 2021.

NON-GAAP FINANCIAL MEASURES

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

The following tables set forth the reconciliations of the Company's non-GAAP financial measures for the years ended 31 December 2022 and 2021 to the nearest measures prepared in accordance with IFRS:

	Year Ended 31 December 2022				
		Adjustments			
	As reported	Equity-settled share option expenses	Net fair value gains on call and put options (a)	Amortization of intangible assets (b)	Non-GAAP
	(HK$ million)				
Operating profit	100.8	15.2	–10.0	40.9	146.9
Profit before tax	1.2	15.2	–10.0	40.9	47.3
Profit for the year	40.1	15.2	–6.8	30.5	79.0
Operating margin	1.2%				1.8%
Net margin	0.5%				1.0%

	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 (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%

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 arising from acquisitions, net of related deferred tax.

MANAGEMENT DISCUSSION & ANALYSIS

WORKING CAPITAL AND FINANCIAL RESOURCES

	As at 31 December 2022	As at 31 December 2021
	(HK$ million)	
Trade and notes receivables (including trade receivables due from related parties)	999.8	1,254.2
Trade and notes payables (including trade payables due to related parties)	1,170.4	1,637.2
Inventories	1,902.0	2,402.8

	As at 31 December 2022	As at 31 December 2021
Trade and notes receivables turnover days(1)	49	44
Trade and notes payables turnover days(2)	102	98
Inventories turnover days(3)	157	141

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 decrease of trade and note receivables was mainly attributable to the decrease of revenue. The increase in trade and notes receivables turnover days was attributable to higher balance at the beginning of the period.

The decrease of trade and note payables was mainly attributable to lower procurements near the end of the Period than procurements near the end of previous year. The trade and notes payables turnover days remained stable.

The decrease of inventories was mainly attributable to the lower level of inventory in transit and less delayed shipments caused by instability of global logistics at the end of the Period as compared to year end 2021.The increase of inventory turnover days was attributable to higher inventories balance at the beginning of the period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group's monetary assets, including cash and cash equivalents, time deposits, pledged deposits and financial assets designated at fair value through profit or loss, were approximately HK$2,069.7 million (31 December 2021: approximately HK$2,256.1 million).

As at 31 December 2022, the Group's interest-bearing bank loans and other borrowings were approximately HK$3,354.8 million (31 December 2021: approximately HK$3,517.5 million), including short-term bank loans and other borrowings of approximately HK$1,182.0 million (31 December 2021: approximately HK$1,223.1 million) and long-term bank loans and other borrowings with repayment terms ranging from two to three years of approximately HK$2,172.8 million (31 December 2021: approximately HK$2,294.4 million).

As a result, as at 31 December 2022, the Group's net debt position was approximately HK$1,285.1 million (31 December 2021: approximately HK$1,261.4 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 2022, bank deposits of approximately HK$788.7 million (31 December 2021: HK$805.6 million) were pledged for certain standby letter of credit from banks and for guarantee. Bank deposits of approximately HK$9.8 million (31 December 2021: HK$7.1 million) were pledged for interest reserve. Nil (31 December 2021: HK$330.3 million) bank deposits were pledged for certain long-term bank loans. Certain machinery amounting to approximately HK$2.3 million (31 December 2021: HK$5.8 million) was pledged to secure bank loan granted to the Group.

MANAGEMENT DISCUSSION & ANALYSIS

GEARING RATIO

As at 31 December 2022, 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, time deposits, pledged 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 36.9% (31 December 2021: approximately 38.6%), or 39.0% after taking into consideration the impact of IFRS 16) (as at 31 December 2021: approximately 40.4%).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group had a total of 7,357 full-time employees (31 December 2021: 8,826). For the Period, costs of employees, excluding Directors' emoluments, amounted to a total of approximately HK$1,762.3 million (year ended 31 December 2021: approximately HK$1,804.4 million). The Group determined the remuneration packages of all employees with reference to their position, competency, performance, value and market salary trend. The Group provides its employees in the PRC and other countries and regions with welfare schemes as required by applicable local laws and regulations.

On 5 November 2010, the Company adopted a share option scheme ("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 2022, there were 132,301,300 outstanding share options in total under the 2010 Share Option Scheme and the 2020 Share Option Scheme (31 December 2021: 136,099,167 outstanding share options).

KEY RISKS AND UNCERTAINTIES

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

OPERATIONAL RISK

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

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

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

BUSINESS RISK

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

FINANCIAL RISK

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

MANAGEMENT DISCUSSION & ANALYSIS

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, credit control and accounts receivable management systems 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 Company 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 74, is the chairman and executive director of the Company. He was also the chief executive officer of the Company from listing to 15 January 2016. With more than 30 years of experience in the juvenile products industry, Mr. Song is the founder and primarily responsible for our group's overall strategic direction and the management of the Group's business. Mr. Song majored in mathematics and graduated from Jiangsu Teachers University (江蘇師範學院) in 1981 with a certificate of graduation. Prior to establishing the Company, Mr. Song was a teacher in Lujia Middle School in Kunshan City from 1973 to 1984 and was the Vice Principal from 1984 to 1993. Between 1989 and 1993, Mr. Song was also in charge of a factory run by Lujia Middle School, the predecessor of Goodbaby Group Co., Ltd., which is a major founding shareholder of our Group. In 1989, Mr. Song invented the first "push and rock" stroller and subsequently founded our Group to engage in the design, manufacture and marketing of strollers under the "好孩子 Goodbaby" brand in China. Because of Mr. Song's outstanding achievements, he was awarded the Ernst & Young Entrepreneur of the Year Award (安永企業家獎) for the Greater China region in 2006. In 2012, Mr. Song was awarded the "Chinese Toy Industry's Outstanding Achievement Award" (中國玩具行業傑出成就獎) by the China Toy Association. In 2013, Mr. Song was selected as winner of Walter L. Hurd Executive Medal 2013 by the Walter L. Hurd Fo.

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

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

Mr. Song is an indirect shareholder and a 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*

LIU Tongyou (劉同友), aged 55, was appointed as an executive director of the Company on 21 February 2017 and Regional Chairman APAC on 15 July 2017. Mr. Liu has been appointed as the chief executive officer ("CEO") of the Company since 21 March 2023. Apart from being responsible for the overall management of the Group in his role as the CEO, Mr. Liu has also been responsible for the direct supervision and management of Group's finance, internal audit, legal affairs, investor relations and mergers and acquisitions, and the 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 (北京標準股份諮詢有限公司) in 1993 as the business director and responsible for consulting on the restructuring as well as listing consultancy of a number of Chinese enterprises, including Haier Electric Appliance Company and Hainan Airlines Company. Mr. Liu was awarded the "2010 China Top Ten Outstanding CFOs" by China's "Chief Financial Officer" magazine and the "CFO of the Year" by the Hong Kong "2017 China Finance Awards".

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

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

* *For identification purpose only*

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

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

DIRECTORS & SENIOR MANAGEMENT

Martin POS, aged 53, is an executive director of the Company. Mr. Pos is the founder of the world's leading high-end child car seat brand CYBEX and he is the executive chairman of CYBEX, leading the brand's strategy implementation and overall management, all the brand's business units and functions across each continent, comprising technical services, supply chain and manufacturing, brand portfolio management, international distribution, national distribution and the brand's central services, reporting directly to the Board. 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 the Company. In December 2014, Mr. Pos was appointed as the deputy chief executive officer. During the period from January 2016 to 21 March 2023, Mr. Pos acted as the CEO of the Company.

XIA Xinyue (夏欣躍), aged 53, 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 the following Group companies:

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

* *For identification purpose only*

Michael Nan QU (曲南), aged 55, was appointed as an executive director of the Company since 18 March 2014 and chairman for the Northern and Southern markets since 15 July 2017. Since December 2014, Mr. Qu has been primarily responsible for our Blue Chip Customers worldwide, working in a leadership role for the American market. Prior to this, Mr. Qu was our company's vice president, primarily responsible for managing key overseas accounts and strategic overseas resources. Mr. Qu joined us in 1994 and he is one of the founding members of the overseas business of the Group. Mr. Qu studied economics in the Economics School of Peking University from 1986 to 1989. He then went to the United States to study business administration at George Mason University from 1989 to 1992.

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

(i) Goodbaby Children's Products, Inc. (also as an executive vice president);
(ii) Goodbaby (Hong Kong) Limited;
(iii) Goodbaby US Holdings, Inc.;
(iv) Serena Merger Co., Inc.;
(v) WP Evenflo Holdings, Inc.;
(vi) Evenflo Company, Inc.;
(vii) Evenflo Asia, Inc.;
(viii) Lisco Feeding, Inc.;
(ix) Lisco Furniture, Inc.;
(x) Columbus Trading – Partners USA Inc.;
(xi) Goodbaby Canada Inc.;
(xii) Muebles Para Ninos De Baja, S.A. De C.V.;
(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 71, 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 the founding of CAGB Group, Ms. Fu was the vice president of Goodbaby Child Products Co., Ltd. ("GCPC"), from February 1993 to July 2010, where she was primarily responsible for retail and distribution of GCPC products in China market.

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

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

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

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

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

* *For identification purpose only*

DIRECTORS & SENIOR MANAGEMENT

HO Kwok Yin, Eric (何國賢), aged 66, 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

CHIANG Yun (張昀), aged 55, 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 28 years of private equity investment experience and is the founder of Prospere Capital Ltd. She was a founding managing partner of the private equity business of Pacific Alliance Group. Ms. Chiang is an independent non-executive director of Sands China Ltd. (HKEX: 1928) ("Sands"), and a member of the audit committee, the nomination committee and the Chairlady of the ESG Committee of Sands. Ms. Chiang is also an independent non-executive director of Pacific Century Premium Developments Limited (HKEX: 432) ("PCPD"), the chairlady of PCPD's remuneration committee and a member of PCPD's audit committee and nomination committee. Ms. Chiang was appointed as a non-executive director of Yantai Changyu Pioneer Wine Company Limited, a company listed on the Shenzhen Stock Exchange, on 1 June 2020. Ms. Chiang received 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.

SHI Xiaoguang (石曉光), aged 76, 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 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 manager 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)).

JIN Peng (金鵬), aged 47, was appointed as an independent non-executive director of the Company on 21 February 2017. Mr. Jin has over 20 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 21 Vianet 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 focusing 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.

DIRECTORS & SENIOR MANAGEMENT

SO Tak Young (蘇德揚), aged 53, has been appointed as an independent non-executive director of the Company on 23 May 2022. Mr. So has more than 20 years of experience in finance, accounting, investment and private equity businesses with global financial institutions and asset management companies. He started his career as an auditor with Ernst & Young, Hong Kong from February 1993 to December 1994. Mr. So has served as a managing partner of FastLane Group since July 2012. He has been serving as an independent non-executive director and chairman of the audit committee of Shanghai Henlius Biotech, Inc. (HKEX: 2696) since September 2019 and CARsgen Therapeutics Holdings Limited (HKEX: 2171) since June 2021. Mr. So has previously served various positions, including vice president of global capital market/Asia treasury and vice president of financial controls of Bank of America, Hong Kong from January 1998 to March 2002, head of finance and operations of consumer and commercial banking in Hong Kong, head of asset and liability management of Greater China and chief financial officer of private client banking in Hong Kong of ABN AMRO Bank N.V., Hong Kong from March 2002 to January 2005, chief financial officer of Hamon Asset Management Limited, an affiliate of Bank of New York Mellon from February 2005 to August 2007, chief financial officer of Asia Pacific of asset management division for Deutsche Bank, Hong Kong from August 2007 to November 2011, and chief financial officer of PAG Capital from November 2011 to April 2012. Mr. So received his bachelor of business degree and his master of business administration degree from the University of Technology in Sydney, Australia in April 1994 and September 1998, respectively. He is a fellow member of Certified Practicing Accountant Australia since August 2011.

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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SENIOR MANAGEMENT

Johannes SCHLAMMINGER, aged 43, 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 chief executive officer 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 products. Prior to this, Mr. Schlamminger 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, Mr. Schlamminger 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 leads to an exceptional commercial and operational record.

Rongfen JIANG (**姜蓉芬**), aged 50, 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. In addition 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 60, 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, Indiana 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.

DIRECTORS & SENIOR MANAGEMENT

COMPANY SECRETARY

Ms. Ho Wing Tsz, Wendy (**何詠紫**), is an Executive Director of Corporate Services of Tricor Services Limited. She is a Fellow of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Ms. Ho has over 25 years of work experience in the field of corporate secretarial and regulatory compliance services.

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PART 1: EXECUTIVE SUMMARY

ABOUT THIS REPORT

Goodbaby International Holdings Limited (together with its subsidiaries "the Group", "Goodbaby International", "Goodbaby" or "we") has prepared this 2022 Environmental, Social and 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" or "Stock Exchange"). This report has followed the reporting principles of Materiality, Quantitative and Consistency and the Reporting Boundary as laid out in the ESG Reporting Guide in its collection of relevant materials, analysis of data, and reviewing of information.

For details of the corporate governance practices of the Group, please refer to the Corporate Governance Report section in page 116 of the 2022 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 2022 to 31 December 2022 (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 ESG 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 28 March 2023.

PART 2: ESG STRATEGY AND OVERSIGHT

GROUP OVERVIEW

Our Vision: To become an outstanding enterprise with global and future-ready competitiveness.
Our Mission: Care for children, serve families, and give back to society.
Our Values: To contribute value to our consumers, enable creators to realize their value, promote innovation and openness, and forge ahead together.

With its mission of "Care for Children, Serve Families and Give Back to Society", Goodbaby International has grown more than thirty years to become a world-leading juvenile products group. Its home markets are Germany, the PRC and the U.S.. To date, we have served hundreds of millions of families in over 120 countries and regions across the globe through our design, R&D, manufacture, marketing and sales of children's car safety seats, strollers, apparel, daily living products, toys and other products. Our capabilities in R&D, design, supply chain and quality management, along with our rapid responsiveness to market needs, have won us 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 strategic brands of CYBEX, gb and Evenflo each enjoy leading positions in their respective home markets, and offer complementary influential local brands such as CBX, HD, Exersaucer, Urbini and Rollplay to suit the needs of different countries and regions. The Group has a product portfolio that ranges from high-end brands to household names, and which together cater for multiple facets of global parenting needs.

It is the mainstream consensus that relying on non-renewable natural resources is unsustainable given the mounting challenges from climate change to humankind. Goodbaby International is continuing to explore and take steps in adopting environmentally friendly materials in the context of its product life cycles, as well as using resources and energy more efficiently in its business activities, to deliver its commitments to sustainable development together with our suppliers.

Lingering into its third year, the COVID-19 pandemic impacted societies and economies around the world in 2022. With its manufacturing capabilities largely concentrated in the PRC, the Group faced uncharted territory as it addressed these challenges. Its revenue declined to HK$8,292.2 million as a result of relatively sluggish market demand and logistical and travel restrictions arising from COVID-19 prevention and control measures.

Nevertheless, the Group continued building its capabilities during 2022 in the belief that the world would eventually emerge from the crisis. We launched over 500 new and upgraded product models, and are proud to have won multiple meaningful awards in areas in which we have established industry leadership. Among them, our CYBEX Anoris T i-Size, the first car seat with an integrated full-body airbag, was awarded the 'best child car seat ever tested in its class' by the leading independent German consumer testing organization Stiftung Warentest and the Allgemeiner Deutscher Automobil-Club. Our products also won 17 world class industrial design awards, including four Red Dot design awards, one iF design award, five IDA design awards, two G-Mark design awards and five German Design awards. The number of the Group's accumulated patents rose to 3,800, including 555 new approvals in the reporting period, representing a good reserve for post-pandemic business recovery.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CULTURE

At Goodbaby, our culture is built around the five-pillar sustainability framework, namely leading product quality, creativity and innovation, energy conservation and environmental protection, caring for employees, and connecting with local communities.

VISION, MISSION, VALUES AND STRATEGY

Information on the Group's vision, mission and values are contained in the paragraphs headed *Part 2: ESG Strategy and Oversight – Group Overview* in this Environment, Social and Governance Report ("ESG Report"). The principal objective of the Group is to create long-term values and returns for all our customers and shareholders. The Chairman's Statement and Management Discussion and Analysis contained in this Annual Report include discussions and analyses of the performance of the Group and the strategy based upon which the Group generates value over the long term. Besides that, the Group has been increasingly focusing on minimizing the impact on the environment and natural resources.

ALIGNMENT OF VISION, MISSION, VALUES, STRATEGY WITH CULTURE

All the products we manufacture are made with unwavering focus on quality and safety (with further information in *Part 4: Quality Design and Procurement for a Robust Manufacturing System* in the ESG Report).

We strive to innovate and create products that not only meet but exceed our customers' expectations (with further information in *Part 6: Innovation Driving Product Resilience* in the ESG Report). We are committed to achieving our goals in ways that minimize our impact on the environment and natural resources wherever possible (with further information in *Part 7: Rigorous Operation Highlights Environmental Benefits* in the ESG Report). We prioritize our employees' occupational health and safety and well-being and strive to create a workplace culture that is supportive, inclusive and empowering (with further information in *Part 8: Protecting Employees' Rights and Interests and Ensuring Occupational Safety* in the ESG Report).

Despite that 2022 was a challenging year in terms of our Group's overall financial results, we are proud to say that our commitment to quality and innovation and sustainability continued to pay off in specific brands such as CYBEX and Evenflo which outperformed industry peers (with further information in the "*Chairman's Statement*" in this Annual Report). In 2022, the Group had continued to take part in the drafting and revising of numerous international and national standards in relation to children's products. Our focus on R&D and innovation was recognised with numerous awards (with further information in *Part 3: Adhering to a Quality Mission, and Setting High Standards* in the ESG Report).

We are also committed to give back to the larger community in meaningful ways (with further information in *Part 9: Contributing to Society and Local Communities* in the ESG Report).

The Board takes the lead in driving and shaping the Group's culture and defining the Group's vision, mission and values and strategic directions. The Group's culture is reflected across its business operations, workforce and workplace practices and policies. The Board's oversight of the Group's culture based on a wide range of measures (such as providing employees training, implementing various code of conduct and policies (e.g., Code of Business Conduct, Conflict of Interests Policy and Whistleblowing Policy) and review any reports from employees or other whistleblowers, monitoring staff turnover rates and any employees' occupational health and safety incidents, reviewing and monitoring data on gas emissions and wastewater discharge, generation of wastes, efficiency in use of energy, water and raw materials, legal and regulatory compliance and services to the community). Our culture and expected behaviors are clearly communicated to all employees from time to time through implementing of various code of conduct and policies and hosting of departmental meetings and employees town halls. Dedicated forums and reporting channels are available for sharing of ideas and concerns on any misconduct or misalignment identified such as the policies mentioned above and employees meetings and town halls. Taking into account our corporate culture in a range of contexts, the Board considers that the culture and our vision, mission, values and strategy are aligned.

BOARD STATEMENT

1. RISKS AND OPPORTUNITIES

Goodbaby International recognizes that global warming is seriously disrupting the agricultural productivity that human life relies on. This, coupled with many secondary hazards, is aggravating the structural inequality of the allocation of global resources, and posing an existential threat to future generations and even humankind in its entirety. The Group remains vigilant on climate change and resilience-building in the context of the impact on future generations whose interests are where our utmost business purpose serves.

The Group's products primarily utilize fabrics, plastics and metals, and our production activities mainly consume electricity. As a result, we are focusing on improving the efficiency of our consumption of energy and natural resources. The Group provides over 8,000 jobs globally, and it ensures its hiring practices are both fully compliant and responsible, in order to attract talents and enable their growth within the Group.

The Group benchmarks and aligns its business activities with the 17 sustainable development goals set forth by the United Nations, and monitors the relevant carbon reduction targets and plans of the countries and regions where it operates. We are applying several initiatives to our design and production processes, for example exploring the scalable application of renewable resources and recycling alternatives, as well as delivering on our product safety commitments.

2. STRATEGY, APPROACH AND GOALS

Taking into consideration stakeholders' concerns, Goodbaby International has established a five-pillar sustainability framework, namely leading product quality, creativity and innovation, energy conservation and environmental protection, caring for employees, and connecting with local communities. We have also embarked on a process of setting mid– to long-term targets for our carbon footprints in areas such as energy intensity, environmentally-friendly design, recycled material and transport efficiency.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's priorities in 2022 under its sustainability framework were as follows:

Energy Conservation and Environmental Protection	Creativity and Innovation	Leading Product Quality	Caring for Employees	Connecting with Local Communities
3 GOOD HEALTH AND WELL-BEING	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	3 GOOD HEALTH AND WELL-BEING; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	8 DECENT WORK AND ECONOMIC GROWTH	3 GOOD HEALTH AND WELL-BEING
• Reduction in emission intensity	• Product safety and winning awards	• Enterprise standards upgrading	• Inclusion and diversity	• Promotion of the use of child safety seats as specified by law
• Reduction in resources consumption intensity (the PRC and the U.S.)	• Smart design to improve safety	• Supplier guiding principles optimization	• On-job skills training and certification	• Community relationship building
			• On-site accommodation during COVID-19 pandemic	• Vegetarian menus contributing to carbon reduction

3. OVERSIGHT AND ACCOUNTABILITY

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

To achieve these ends, the Group CEO leads an ESG Working Group ("Working Group") which drives 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 development of reports; and 4) the review of risk management and internal control systems. A bi-monthly reporting system is in place.

In 2022, the Group's ESG Working Group, supported by external ESG consultants, conducted a gap analysis benchmarking the Group's ESG disclosure against regulatory requirements and industry best practices, following which a set of two–to–three-year improvement guidelines and priorities were established.

MATERIALITY ASSESSMENT AND CONFIRMATION

The Group's identification and disclosure of material ESG topics is an important reporting principle of this report. As an industry leading company, we are fully aware of the impact that our business decision-making processes may have on various stakeholders, including consumers, government and regulatory bodies, investors, suppliers, distributors, and employees. We are committed to engaging with our stakeholders in constructive dialogue via our regular operating activities and/or dedicated channels, in order to better understand their views and expectations and solicit their comments and feedback.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IDENTIFICATION OF POTENTIAL MATERIAL TOPICS

In 2022, we refreshed the Group's ESG topic universe as in the table below. It comprises 14 environmental, 14 social and 4 governance topics of risks and opportunities. This was undertaken after communication with our stakeholders and reference to other sources, with the topic universe being drawn from 1) the material topics for the manufacturing and retailing sectors under the Sustainability Accounting Standards Board Standards; 2) the requirements set forth by regulatory bodies; 3) media reports on ESG-related topics in the industry; 4) suggestions by and requests from customers; 5) major events experienced by different business units and functional departments of the Group during the year; and 6) the results of the Group's materiality assessment for 2021.

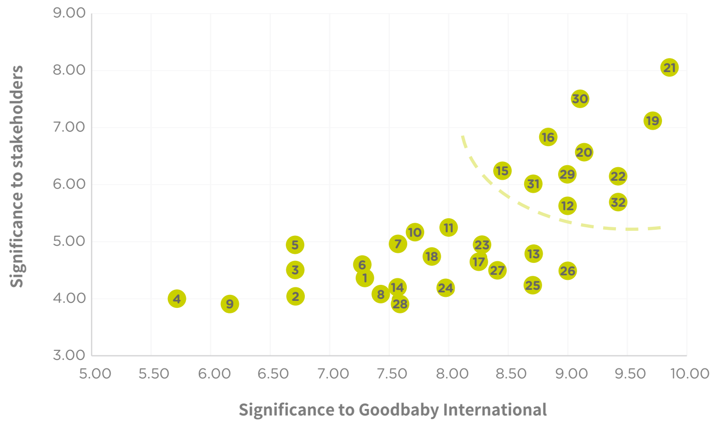
Materiality Topics

Environmental	Social	Governance
1. GHG emissions 2. Product carbon footprint 3. Climate change impact 4. Green finance 5. Circular economy 6. Renewable energy 7. Energy consumption and efficiency 8. Water consumption and management 9. Reliance on non-renewable energy 10. Hazardous gas emissions 11. Waste management 12. Packaging materials 13. Plastic waste 14. Noise pollution	15. Compensation and welfare 16. Development and training 17. Work intensity and health 18. Equal opportunity 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 labor standards 26. Supply chain business ethics 27. Environmentally friendly materials 28. Community relations	29. Board effectiveness 30. Compliance with laws and regulations 31. Feedback mechanism 32. Anti-bribery and anti-corruption

MATERIALITY ASSESSMENT

In accordance with the relevant requirements of Appendix 27 to the Main Board Listing Rules of the SEHK, the Group amalgamated the expectations of stakeholders with the Group's business strategies and policies to draw up a materiality matrix. The results showed that material topics of high priority included: product quality and safety, compliance with laws and regulations, technological development and innovation, production safety, board effectiveness, customer service, feedback mechanism, anti-bribery and anti-corruption, compensation and welfare, staff training and development, and packaging materials.

Goodbaby International's Materiality Matrix



The Working Group reported to the CEO and senior management on the materiality assessment results, especially the 11 topics considered of higher priority by both stakeholders and management. These material ESG topics approved by the Board are presented in this report under their respective sections and given in-depth discussion. The Group is looking to develop and implement plans to address these priorities in its daily business operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

BUSINESS ETHICS AND CORPORATE CONDUCT

The Group's governance structure is set up to ensure all operating activities strictly comply with applicable laws and regulations and with required internal policies and processes. These are duly implemented, and their results and effectiveness measured. As a listed company in Hong Kong, we strictly observe the requirements stipulated by the Stock Exchange for disclosures of connected transactions and inside information, and have formulated appropriate internal systems and review mechanisms, including the provision of training for those in relevant positions. We are also committed to high and uncompromising standards of business ethics, and have formulated measures to shape our corporate conduct accordingly.

In the Reporting Period, the Group updated its *Code of Business Conduct, Conflict of Interests Policy* and *Whistleblowing Policy* to fully comply with regulation changes and to reference global best practices. Steps were taken to ensure these policies are followed effectively with measurable actions in all the countries and regions where we operate.

In 2022, we optimized our *Code of Business Conduct* across multiple topics to ensure greater compliance and to increase its effectiveness as a guiding principle, particularly in the areas of protecting company information and assets (e.g. intellectual property rights and trade secrets). The Code emphasizes the need for a healthy working culture of mutual respect and equality among colleagues, as well as the obligations relating to insider information and share trading compliance.

Goodbaby International Code of Business Conduct Framework

- Compliance with laws and ethics
- Mutual respect, equality and anti-discrimination
- Fair competition
- Gifts, entertainment and other hospitality
- Protection and proper use of company assets
- Record keeping and confidentiality
- Insider information and share trading
- Conflict of interests
- Corporate opportunity first
- Environment, health and safety
- External communication and use of social media
- Complaints and whistleblowing

During the Reporting Period, the Group further reviewed and optimized its system for managing conflict of interests in the PRC, the U.S. and Europe with the aim of lifting the quality of conflict of interest declarations. The declaration scope for conflict of interest cases was also expanded from those in specific positions to all staff[1], with an applicable declaration reply rate of 100%[2]. Applicable declarations from suppliers were also expanded to include all active suppliers in our system, with exemptions to certain super-sized companies, government institutions and small-sized procurement partners.

1 Not including frontline workers.
2 Excluding situations where staff have retired or are on leave.

Declaration of Conflict of Interests under the Code of Business Conduct

In 2022, Goodbaby International revised its *Conflict of Interests* declaration form under the *Code of Business Conduct*, and offered training to all eligible employees globally. The training offered explanation in detail the relevant requirements in the form to ensure staff thoroughly understood the purpose and methods of the declaration. Such mobilisation proved to be helpful in raising the quality and accuracy of the declaration exercise. The *Conflict of Interests Policy* lays out disciplinary consequences for confirmed deliberate omissions or concealment, including termination of employment contract; it also specifies that if there is a confirmed conflict of interest, the individuals concerned will have their responsibilities redefined or changed.

Flowchart of Declaration on Conflict of Interests under Code of Business Conduct

1. Annual COI & COC Form Confirmation
2. Annual COI & COC Declaration
3. Collection and Compilation of Results
4. Declaration Verification and Confirmation
5. Determination of Results and Control Measures
6. Control Measures Approval
7. Control Measures Implementation

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group also revised its *Whistleblowing Policy* to further recognize anonymous reports and guarantee whistleblower protection. Dedicated whistleblowing emails are in place for our businesses in the PRC, the Americas and Europe, as well as for stakeholders, to raise concerns on existing or suspected direct or indirect fraud, bribery, corruption, or violation of material corporate policies. The Group runs internal campaigns with annual training and posters to help raise employees' awareness of the importance of this policy. We also encourage our staff to communicate their concerns on inappropriate behavior at work via other available channels if more appropriate. In the Reporting Period, the Group received some complaints on harassing language and discriminatory behavior, and reports of cases of suspected fraud, all of which were reviewed and resolved.

All reports deemed material are reported to the Chair of the Audit Committee of the Board of Directors, who is charged with leading further investigation and handling of the cases. The Group has pushed for its suppliers and partners to set up similar mechanisms and principles, and provided relevant guidance on their rights and accountability in its *Supplier Guiding Principles Policy*. The Group also requires suppliers to sign a letter of undertaking to confirm their understanding of our *Code of Business Conduct* and abide by whistleblowing obligations.

In 2022, the Group's legal and internal control departments jointly led the annual two-hour training on *Code of Business Conduct, Conflict of Interests Policy* and *Whistleblowing Policy* across all business units, through online and in-person sessions. Reports from internal control on violation incidents during the reporting year demonstrated a good level of observance of all codes, due to the gradual familiarity gained by employees from regular annual training over the years.

Whistleblowing Policy Training

The whistleblowing policy training emphasized the rationale of the system and the role of each staff member, and showcased past cases (including the ratio of anonymous and real-name reporting). It fostered a speak-up culture and explained the process clearly, ensuring a good level of awareness and a sense of responsibility among all.

The Group conducts anti-corruption training annually in the fourth quarter of each year. In 2022, all board directors completed anti-corruption training, as did 4,035 employees at all levels. All management members partook in it. In the Reporting Period, no fraud or corruption-related lawsuits were filed against anyone from the Group, and no material cases were received via the whistleblowing channel.

PART 3: ADHERING TO A QUALITY MISSION, AND SETTING HIGH STANDARDS

As a major player in the juvenile products industry, Goodbaby International is committed to its mission of "Care for Children, Serve Families and Give Back to Society" and the extraordinary level of product responsibility that brings. For children still lacking a full safety sense, product quality and reliability are critical and much relied-on protections. In view of this, Goodbaby International has always embraced a "Quality First" philosophy aiming to deliver "Absolute Safety" and "Utmost Experience" in its products and services. Its quality management principle of "Zero Defect, Zero Tolerance" has been instilled across its entire operations, including at the levels of formulation of standards, product design, procurement, production, compliance testing and packaging and transportation.

Goodbaby International has a clear quality mission:

Group Quality Mission

The Mission of Group Quality is to protect the Group by identifying legal, reputational or financial risks due to non-conforming products or non-value adding quality activities and assure that processes are defined and followed to mitigate those risks.

Quality is the cornerstone for Goodbaby International's operations and business development. Our product quality has received widespread recognition among consumers and peers alike in the markets worldwide.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HIGH QUALITY SPRINGS FROM HIGH STANDARDS

Goodbaby International has come to play an important part in the formulation of national and international standards, having become proficient in applying relevant European and American standards in its own practices over the past decade or so. Our goal of making the best products and being a responsible company drives us to maintain a quality management system with industry leading standards.

STANDARDS SETTING

The Group participates in the development of international and national industry standards for children's car safety seats, and is a key member of industry standards committees in the PRC, the U.S., the European Union and Japan. Goodbaby International jointly launched the ISO/TC 310 Technical Committee for Child Care Articles with the French National Standards Committee in June 2021 and served as the rotating Chairman. In 2022, the Committee's management group established the Chairman's Advisory Group, whose Technical Committee set up a special taskforce focusing on 44 subjects in four categories, namely general safety requirements, feeding and oral products, activity and protective products, and sleeping products. Respective working groups were established and assigned with specific standard setting tasks accordingly. Goodbaby International served as the convener of two working groups, those for general safety requirements and for activity and protective products, and was in charge of planning and driving initiatives. It participated in the second global expert conference of the committee on 30 November 2022.

In recent years, Goodbaby International has also participated in the development of various standards for children's products in the PRC. In 2022, the national standard *Disposable Diapers-Part 1: Disposable Diapers for Baby*, which the Group played a part in developing, came into effect.

Goodbaby International has been Involved in the Development of Multiple Standards for Children's Products in the PRC

Implemented in 2022:

Disposable Diapers-Part 1: Disposable Diapers for Baby

Standards published before 2022 include:

National Standards:

Guidelines on Determining Plasticized Materials in Toys or Parts of Toys that can be Placed in the Mouth
Toys, Child Use and Care Articles' Terms and Definitions
General Technical Requirements of Electrically Driven Ride-on Vehicles for Children
Restraining Devices for Child Occupants of Power-driven Vehicles
Infant Feeding Bottles and Teats
Baby Carrier with Hipseat

Industry Standards:

Cribs

Association Standards:

Safety Requirements for Restraining Devices for Child Occupants of Power-driven Vehicles Wet Wipes for Babies and Children

By the end of 2022, the Group had taken part in the drafting and revising of 272 international and national standards. 13 international standards, 137 national standards, 49 standards for the PRC, and 28 industry, regional and association standards, are effective. In 2022, Goodbaby International participated in the drafting and revising of 40 international and national standards, 10 of which have been published.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Standards Committees of which Goodbaby International is a Member:

ISO/TC 310 Rotating Chairman
ISO/TC 22 Expert panel
SAC/TC 253 Vice Chairman
SAC/TC 463 Committee member
SAC/TC 480 Committee member
CPSCF15 Committee member
CEN/TC252 Committee member
CPSA Committee member
SAC/TC141/SC5 Committee member
SAC/TC305 Committee member

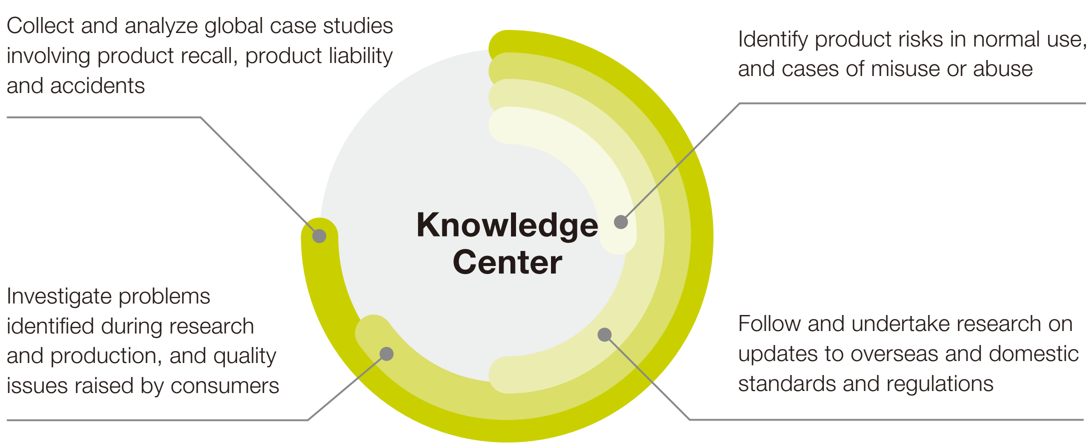
Enterprise Standards

The Group operates a set of enterprise standards that far exceed the standards used in other countries and regions across the globe. In addition, we invest resources in regular research on consumer behavior and monitor market information on product misuse, the result of these exercises is reviewed and referenced in updating the relevant enterprise standards, such updates are regularly implemented in our design and production processes.

Goodbaby International's enterprise standards encompass over 80 product standards and over 70 standards for components. Many 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. Our testing covers over 300 substances, far exceeding the 19 substances regulated by the European Union.

The Group has also established a research knowledge center for standards that leverages our unique product testing capabilities and consumer experience data to validate and ensure that our standards are science-based, advanced, and comprehensive.

Research Knowledge Center for Standards



Goodbaby International's enterprise standards cover the most extensive scope and are the strictest in the industry. We also draw on multiple disciplines for the further upgrading of key technical indicators. For example, the Group has drawn on quality management standards developed by the automotive industry, as well as hazard analysis and critical control points adopted by the food industry, in a bid to create the best possible protection for child users. In 2022, the Group added eight new standards to its enterprise standards system.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Goodbaby International Enterprise Standards Far Exceeding Industry and International Standards

Product Category	Main Indexes	ISO Standards	Enterprise Standards
Strollers	Outside walking test	None	Test for 500 km
	Backrest static load test	None	Load 30 kg on backrest for 10 min Backrest operation durability: 2,500 cycles
	Footrest static load test	None	Load 23 kg on the footrest for 1 min
	Test for dynamic strength of carriers/pram bodies	None	15,000 cycles
	Bumper bar/tray static load test	None	1. Load 30 kg on bumper bars for 10 min 2. Load 20 kg on trays for 10 min
Car safety seats	Frontal impact test	50 km/h	80 km/h
	Carrying handle misuse	None	27 KGF
	Sand test	None	30 cycles
	Carrying handle operation durability	None	5,000 cycles
	Packaging drop test	10 cycles from a height of not more than 760 mm	14 cycles from a height of 1,500 mm
Materials	Formaldehyde	20 ppm	16 ppm
	Soluble lead	90 ppm	23 ppm
	Flame retardants	None	28 kinds, each flame retardant must be less than 5 ppm
	Total lead	300 ppm	10 ppm

The Goodbaby Standards Committee, established in 2010, is responsible for the integrity of the Group's enterprise standards. It issues new releases and updates in accordance with our *Product and Components Standards Management Policy*. The Committee provides institutional assurance that resources are being correctly allocated to maintain the Group's leadership position in standards-setting. It 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 of safety, reliability and user experience across general techniques, products, procurement and manufacturing standards.

PART 4: QUALITY DESIGN AND PROCUREMENT FOR A ROBUST MANUFACTURING SYSTEM

Goodbaby International's quality management system includes strict specifications and procedures covering the entire process of design, procurement, production, packaging and shipping. The Group also relies on its self-owned industry-leading testing capabilities, along with third-party testing accreditation, to deliver experience-driven childcare products.

RISK CONTROL FROM DESIGN STAGE ONWARDS

Goodbaby International's quality system starts at the product design stage. It applies Failure Modes and Effects Analysis (FMEA) to concept generation and structure and appearance design, as well as at the development stage to visualize the relationships between products, functions and failures. By analyzing failure modes and the causes and consequences of failure, potential problems can be identified before mass production and measures taken to systematically improve product quality and reliability.

The Group undertakes 137 key tasks from concept design to mass production to ensure that new products successfully get through the entire process of prototyping, validation and trial production. Its child car safety seats also draw on quality control methods and techniques taken from the automotive industry, such as Advanced Product Quality Planning (APQP), Impact Simulation Analysis (CAE Simulation), All-around Testing (including dynamic, static and misuse testing), and Product Verification Checklist.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has five production bases, in Kunshan, Ningbo, Pingxiang in the PRC, Piqua in the U.S., and Tijuana in Mexico. They are principally engaged in the production of durable juvenile goods including child car safety seats, strollers, electric ride-ons for children, cribs, and baby seats. All three PRC production bases have ISO 9001 Quality Management System certification, and their supply chain system is managed according to GBT 19580 Excellent Performance Evaluation Criteria. In the Americas, our two production bases operate according to a set of quality management systems and procedures based on ISO standards and principles.

THE PRC

Our production bases and Quality Assurance Center in the PRC developed 882 quality management policies and over 10,000 operation requirements, including those laid out in the *Quality Manual, Product Safety Management System (including recall system), Product Liability Management System*, and *Product Experience and Evaluation Management System*. These ensure the stability and consistency of different products throughout production, and guarantee quality assurance from materials acquisition and production to shipment.

The Group's quality management system is based on a series of operational documents that include *Corrective and Preventive Management Procedures, Document Control Procedures, Record Control Procedures, Non-conforming Products Control Procedures* and *Data Analysis Management Procedures*. To ensure continuous quality improvements, the Group analyzes the reasons for non-conforming or non-standard products and implements appropriate corrective or preventive measures.

In 2022, our production bases in the PRC launched a new *Non-conforming Product Scrapping Process*, and revised a number of quality control system documents such as the *Red and Yellow Material Box Management System, Rework under Control, Error Prevention Management System, Final Inspection Management System, Audit Control Procedures* and *Supplier Quality Management*. The Group conducted training on implementing the newly added or revised content for relevant positions including workshop managers, quality engineers, quality inspectors, production engineers and front-line operators.

With technological development, and especially digital technology, the Group has established a blueprint for digital transformation by integrating smart products, smart manufacturing, information flows and materials flows. In 2022, the Group kicked off a digitization upgrade of its production sites in the PRC.

Manufacturing Execution System (MES)

The Manufacturing Execution System (MES) was the focus of our 2022 digital upgrade for the production bases in the PRC. MES covers the entire process from order receipt, production planning, materials planning, order delivery to final shipment. It facilitates integration of workshop production management and scheduling, as well as Enterprise Resource Planning (ERP) at the enterprise management level. During the year, we completed the development of an MES system for the plastics factory, logistics center, and trolley and safety seat assembly plant at our Kunshan production base.

THE AMERICAS

In the Americas, Evenflo continues to deepen its role as a parenting partner with its century-old beliefs and traditions. The management of production quality for Evenflo products is focused on reliability, stability and durability. Strict controls are in place concerning risks, processes, changes and personnel, making for sound management of the brand’s reputation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Evenflo's Three Robust Quality Objectives

Evenflo has three robust quality objectives, namely robust design, robust process and robust process controls. The three objectives fully meet the requirements of the *Quality Requirements* and operation standards.

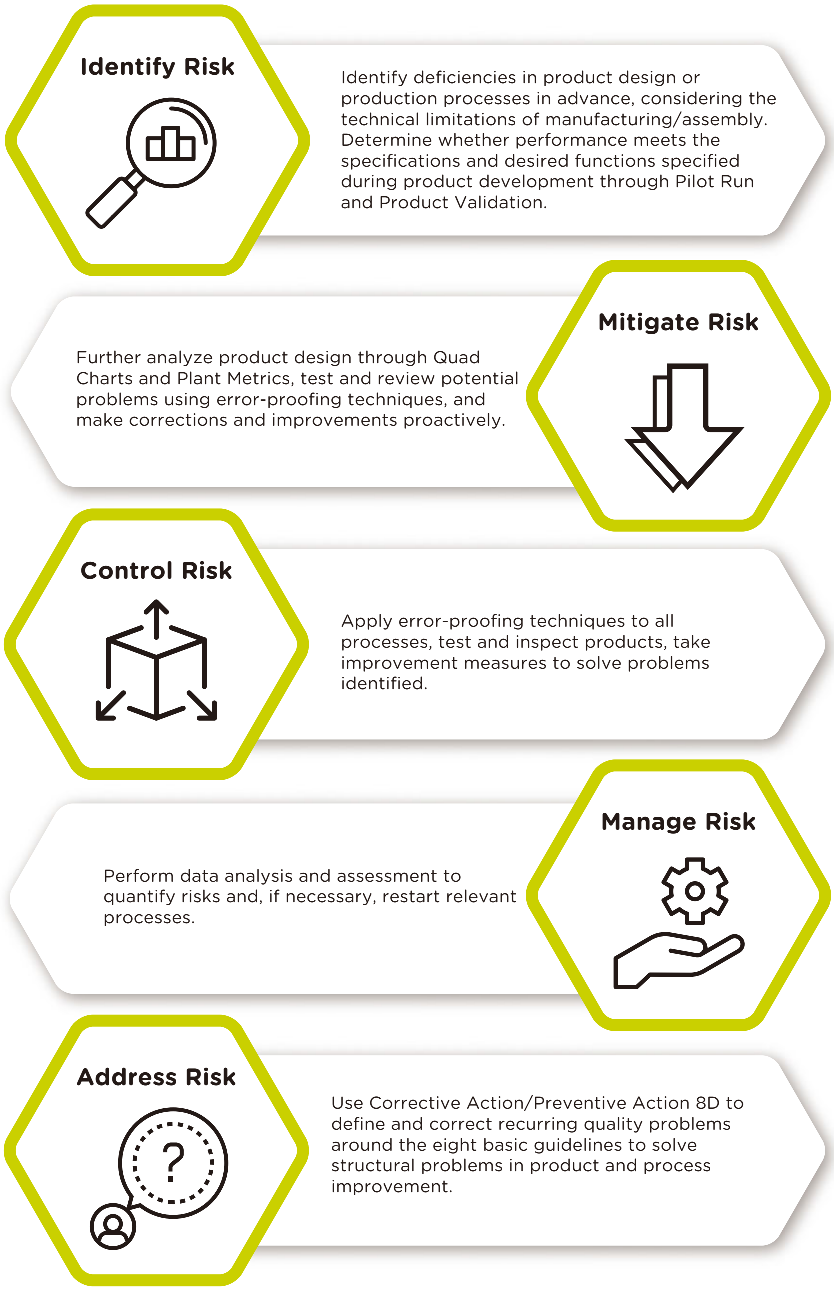
We have developed targeted testing methods including Sled Testing, Structural Integrity Testing, CFR Testing and Lifecycle Testing, as well as relevant quality indicators and metrics, to ensure quality control and management throughout the product lifecycle. These methods are based on standards higher than most industry or national standards.

The Group strictly complies with and has fully met relevant laws, regulations and standards in the Americas, including the *U.S. Consumer Product Safety Improvement Act, American Society for Testing and Materials, the U.S. Car Seat Standard FMVSS213, Safety Standard for the Handheld Infant Carriers F2050, the Canadian Carriages and Strollers Regulations SOR/2016-167, Canadian Safety Regulation for Expansion Gates and Expandable Enclosures SOR/2016-179,* and *Toy Regulations SOR/2022-17* under the *Canada Consumer Product Safety Act*.

These laws and regulations include clear requirements for product labelling and instructions, including product features, usage, certification information and labelling. In addition to being in strict compliance with these to ensure consumer rights, we also take into account the readability of our labels and the environmental friendliness of the paper and printing used. In addition, we follow the quality specifications of our retail partners, and were involved in the certification of 11 product categories under the Juvenile Products Manufacturers Association of America.

Throughout the entire product lifecycle, the quality of the initial design underpins the subsequent process development and control. With risk mitigation as a core strategy, we incorporate all quality requirements when designing a product according to stringent enterprise standards and performance specifications, while meeting market and client needs. We have adopted a five-step approach "Identify Risk, Mitigate Risk, Control Risk, Manage Risk and Address Risk", quantifying risk monitoring indicators, to ensure the effective operation of our quality management system.

Risk Control in Design Process



In 2022, we reviewed the new product development process and integrated quality management into the design and development process, with a view to strengthening our ability to identify potential failure modes and analyze consequences. The Group organized a number of training sessions for relevant employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

BUILD SYNERGIES WITH SUPPLIERS TO ACHIEVE SUSTAINABLE WIN-WIN RESULTS

QUALITY FIRST

Goodbaby International works with qualified and reputable suppliers with the highest levels of quality and ethical behavior. Suppliers play an important part in the Group's quality system, and help ensure the industry-leading positions of our brands.

The Group has 728 production materials suppliers, 180 OEM suppliers and 1,121 non-production suppliers. Production materials that we source are mainly metals, plastics, fabrics, chemicals and packaging materials; non-production suppliers include suppliers of IT, consultancy and other services; OEM procurement relates mainly to parenting products sold by the gb brand in the PRC, primarily in the four categories of durables, consumables, apparel, and cotton fabrics.

Our procurement strategy has always been centered around a stable supply chain (especially over the past three years when both consumers and the manufacturing sector were affected by the pandemic), so the quality and timeliness of product supply are top criteria for evaluating suppliers. Our key production materials and OEM suppliers have ISO 9001 certification, and ISO 14001 certifications are required for tissue and skincare suppliers. In 2022, 87% of our production material suppliers had signed zero defect and hazardous substance management agreements. We have also set up a supplier quality management platform based on the enterprise resource planning system to enable real-time updates to all our quality improvement projects, which is enhancing communication efficiency with suppliers as well as product quality traceability.

SUPPLIER MANAGEMENT

As the main production engines of Goodbaby International, the production bases in the PRC carry out steady procurement and supplier management work in accordance with the *New Supplier Introduction Procedures, Supplier Elimination Process, Supplier Management Control Procedures,* and *Procurement Principles Procedures*. The Supplier Quality Management team, which works in parallel with the procurement function, monitors quality levels and performs monthly evaluations during the supplier selection and order fulfilment process. As the Group scales up its investment in the R&D of smart products, the procurement team has been building up a pool of suppliers for technology-driven and smart products, such as biometrics, smart electronics, airbags and recyclable materials.

In the Americas, Evenflo has always upheld the quality principle of "Continuous Improvement" and encouraged its suppliers to have a comprehensive commitment to quality. The two production sites in the region are principally engaged in assembly and injection molding, sourcing mainly raw materials including resins, metal parts and cardboards. In addition to the *Quality Manual* and *Quality Requirements*, Evenflo recommends its suppliers to refer to the Automotive Industry Action Group's *Statistical Process Control Reference Manual* and *Potential Failure Mode and Consequence Analysis Manual*.

The gb brand covers a wide range of product categories, and collaborates with OEM suppliers for non-durable product lines. When selecting, reviewing and evaluating OEM suppliers, the gb brand uses management policies such as *Product Supplier Management Procedures, Procurement Order Management Procedures, Procurement Control Procedures* and *Product Pricing for Contract Management Procedures* to specify its procurement management principles and standards. The quality department serves as the gate keeper in the procurement process to ensure the conformity of product quality. In 2022, the gb brand reviewed and made revisions to the main management systems mentioned above in response to consumers' evolving behavior and efficiency requirements for in the Internet era.

In terms of OEM supplier management, the gb brand mainly focuses on three dimensions, namely level of quality, supply capacity and cost control. It regulates the development, audit, evaluation and elimination mechanism for suppliers through its *Product Supplier Management Procedures* for transparent supplier acquisition and management. In addition, the brand has developed a series of supplier quality management measures which specify the control methods and implementation process for supplier quality management, and ensure that all materials, parts, outsourced products and finished products from suppliers meet its quality requirements.

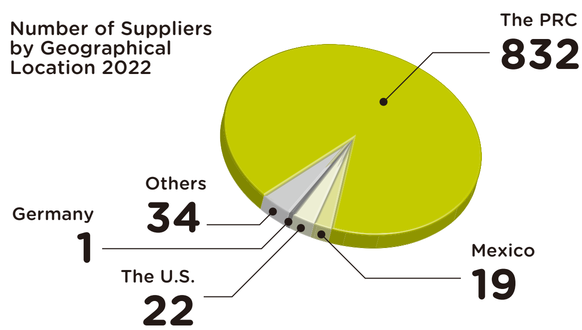
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

gb Brand Supplier Quality Management Measures

To identify problems promptly and build healthy long-term relationships with suppliers, the gb brand has moved quality control ahead of other steps, and implemented it at the level of the suppliers' manufacturing process. It has also moved inspections from the warehouse side to the factory side to stop defective products from entering warehouses and then the market. The gb brand has 168 OEM suppliers based on product categories.

In 2022, the brand's procurement team worked to identify suppliers with competitive advantages in both cost and quality. The brand also launched a Value Analysis/Value Engineering program to strengthen its integrated management of suppliers to reduce costs and improve economic efficiency.

During the Reporting Period, annual reviews of 637 of the Group's global suppliers[3] were completed, leading to the removal of 79. Another 46 suppliers were added. The disruption that the pandemic brought to the supply chain led the Group to take more local and regional suppliers into consideration when developing sourcing plans, to expand its supply capabilities within existing operating regions.



[3] Non-production suppliers are excluded.

SUPPLIER TRAINING

Goodbaby International shares its quality culture and management practices with its suppliers, aiming to collaborate and integrate with them more closely in their daily operations. In total, 91% of its materials and OEM suppliers are from the PRC. The Group has paid extra attention to communications with suppliers in the PRC due to the impact of the pandemic and travel restrictions.

We continued to organize training sessions for suppliers, mainly online, due to the travel restrictions during the pandemic in the PRC. In 2022, we trained 90 suppliers on the *Measures for the Administration of Chemicals* for a total of 225 training hours. We also conducted small-scale offline activities for suppliers when pandemic controls allowed. Our Kunshan production base sent environmental and occupational health experts on visits to three neighboring suppliers, where they inspected safety production arrangements and provided training. Our efforts drew positive responses from the suppliers and recognition from the local government.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2022, the gb brand provided 22 on-site and online training sessions for OEM suppliers of durables, consumables and apparel that covered new product standards, quality management processes and complaints. In doing so, we further strengthened suppliers' understanding of changes in products and market demand, as well as the Group's specific quality and process control requirements.

SUSTAINABLE SUPPLY CHAIN

In 2022, the Group updated its global *Supplier Guiding Principles Policy* with the aim of ensuring that its suppliers meet the highest level of quality and are willing and able to operate in accordance with Goodbaby International's applicable rules, regulations and ethical standards. The standards specified in the *Supplier Guiding Principles Policy* have been incorporated into supplier agreements, with suppliers expected to build and implement their internal business procedures to comply.

The Group encourages suppliers to incorporate sustainability into their business operations, and notes that some have already achieved positive results in terms of environmental performance, such as building their own self-owned photovoltaic power generation systems, and launching a green fiber business from recyclable plastic bottles. During the year, the declaration of supplier conflict of interests included global OEM suppliers for the first time, covering 100% of eligible suppliers.

In 2022, with Goodbaby International's encouragement, the water cup supplier for the gb brand incorporated sustainability into its business by replacing its air conditioners with a green ventilation system, significantly reducing energy consumption and noise.

IMPROVED TESTING CAPABILITIES TO SAFEGUARD PRODUCT QUALITY

Goodbaby International's enterprise standards and quality systems rely on its well-equipped and powerful testing laboratory. After years of expansion, the laboratory is recognized as the most professional and comprehensive testing and certification awarding institution in the field of juvenile products worldwide. The Group's laboratory is the only institution that can test according to the national standards of the PRC, the European Union, the U.S. and Japan at the same time. It is accredited by the U.S. Consumer Product Safety Commission, and is authorized to provide ECE R44 child safety seat testing and certification services. It is also the first authorized testing institution to test according to the standards of the Allgemeiner Deutscher Automobil-Club.

Holding the laboratory qualifications of the China National Accreditation Service for Conformity Assessment, the China Metrology Accreditation Service and the China Center for Automotive Accreditation, the Group's laboratory in the PRC also serves as the designated laboratory for the China Compulsory Certification, and the partnering laboratory for the China Quality Certification Center, the Certification Center of the Light Industry Council and other mandatory product quality certification bodies. In 2022, the laboratory was selected to join the list of the National SME Public Service Demonstration Platform as an exemplary company in the technical service category.

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 internationally recognized organizations. The laboratory also has over 2,500 testing capabilities for toxic and hazardous substances and 360 environmental testing capabilities for water, gas, noise and soil.

The laboratory in the PRC owns over 1,000 pieces of advanced testing equipment, and its testing capabilities span 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 environments between –20°C and +70°C. It fully meets the testing needs of Goodbaby's entire product family, from prototype design and trial through to mass production.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The laboratory in Piqua also conducts product integrity testing, sled testing and batch testing of materials such as fabrics in accordance with the *Quality Requirements*. We also invite qualified third-party laboratories to conduct annual testing according to the requirements of the U.S. Consumer Product Safety Commission.

As new technologies emerge, smart products for children have become a major trend. The Group has developed a series of smart products for children such as smart electric strollers, smart beds, smart car seats and smart mats. Since there is no industry standard for children's smart products, the Group has developed its own specific quality requirements and testing capabilities for these products, such as vibration tests, damp heat cycle, over-voltage performance, and reverse voltage performance.

Taking the smart electric stroller as an example, the Group has developed special testing equipment to test the reliability of the product, targeted at its function of adding uphill assistance and downhill resistance. Testing takes place at different temperatures (from +70°C to –20°C). We have also developed other tests, such as triple integrated vibration and rapid temperature change tests, to reflect the performance of smart products more accurately during transportation and actual use, and identify flaws in product design.

Before launch, every Goodbaby International product undergoes hundreds of tests under four categories. The Safety Test is a basic test to meet international or national standards, and a Reliability Test is then conducted to ensure durability and reliability. The Quality Requirements Test is an overall test based on the product features, and the 3F (Fit Feel Finish) Test is a test for both functions and user experience. We also perform a Structure Integrity Test (SIT), a Confirmation of Production (COP) and a Product Maturity Test during the development stage. Third-party testing organizations also conduct some product tests for the Group, in addition to tests carried out at our own crash test laboratories.

Four Types of Tests for Goodbaby International Brands

Safety Test

Meet international or national standards

Reliability Test

Product durability and reliability

Quality Requirements Test

Testing specifications of each product

3F (Fit Feel Finish) Test

Unboxing experience, including touch, appearance and smell. Product supports a good user experience

In 2022, the Group added testing capabilities for vibration tests, damp heat cycle, over-voltage performance, and reverse voltage performance.

Technology Breakthrough on the New U.S. Standard of Child Restraint System

The U.S. has updated its Child Restraint System standards in recent years, adding relevant safety requirements regarding the risk of side impacts, which are common in traffic accidents.

In order to meet the latest requirements of CRS, the Group developed relevant testing technologies, upgraded and improved frontal impact test in accordance with the U.S. Car Seat Standard FMVSS213, and also introduced a new seat for frontal impact test. We have also developed a 10° lateral impact technology for child car seats, replacing the costly honeycomb aluminum deceleration technology with reusable cylinder deceleration technology.

Building Child Car Seat Airbag Testing Capabilities

To test child car seats with airbags, we apply automotive airbag detection technology that can conduct high-precision static and dynamic point-blown tests.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CULTIVATE QUALITY CULTURE

The Group's "Quality First, Zero Defect, Zero Tolerance" quality culture represents an accumulation of experience and practices over time. In response to emerging trends in new materials, process efficiency and consumer demand globally, we are actively exploring, re-organizing and integrating our approaches, while always keeping children's health, safety and happiness at the forefront, in order to keep Goodbaby's quality culture abreast of the changing era.

With absolute safety and utmost experience as its goals, the Group's Safety Committee develops product standards and regulatory studies, product safety management systems, and specialized monitoring systems. In line with the principle of zero tolerance for product safety. The Safety Committee also organizes training and education on product quality and safety issues, supported by the quality, R&D and product engineering departments.

To foster a culture where everyone cares about and takes responsibility for quality, the PRC production bases have developed a quality incentive mechanism for internal staff. This has involved introducing quality knowledge competitions and quality training for employees at all levels, linking quality performance to performance assessment and promotion, and setting up quality awards such as the Quality Improvement Award and the Best Quality Improvement Award. The Group has also built a quality management system and operation standards that specify accountability and lay out key performance indicators for different levels, and that delegates responsibilities to specific positions and individuals.

In the Americas, we have built a quality team structured around the needs of Evenflo consisting of Product Integrity, Supplier Quality, Americas Production Quality and Asia Production Quality. General and specialized skills training is provided for quality-related positions for relevant employees to help them fully understand and fulfill their daily responsibilities, and gain personal growth and development from the Group's quality system.

PART 5: NEEDS-BASED SERVICES ACCOMPANYING CHILDREN'S GROWTH

Looking to provide the safest juvenile products and the best services to families with children, over the years Goodbaby International has continuously expanded its offline networks of distributors and self-owned channels while also increasing its comprehensive online capabilities. Currently, the Group provides products and services of all brands to parenting families in over 120 countries and regions.

During the Reporting Period, the COVID-19 pandemic continued to impact negatively on consumer spending globally. Nevertheless, Goodbaby International's strong reputation and innovative product features helped it maintain its market-leading position in major segments such as child car safety seats and child strollers. Each of the Group's core brands has its own distinctive market positioning and runs its own independent sales and service systems, which work to identify and promptly serve the ever-changing parenting needs of consumers.

A NEW MODEL OF COMPANIONSHIP

Goodbaby International's classic high-end international brand CYBEX offers sales and services worldwide through direct business and national agency arrangements. Its self-owned marketing, sales and after-sales service has presence in 47 countries, through 102 flagship stores and 58 maintenance centers. CYBEX also provides products and services via exclusive agency partnerships in nearly 70 countries. The gb brand focuses on the Chinese market where it serves millions of parenting families through approximately 4,500 retail sales points, including 468 self-owned stores. In the U.S., the long-standing Evenflo brand works in partnership with the four big retailers of Walmart, Amazon, Target and buybuy BABY, to expand its sales coverage.

Distributors, large chain stores and franchisees are key channels through which we connect with consumers, and also important communicators and defenders of our product images and values. Each of our brand takes into account the characteristics of its own target market segments and applicable laws and regulations in managing its downstream customers and ensuring service standards and procedures, with the aim of offering consumers with high quality products and services while further expanding its markets. We conduct a partner satisfaction survey annually in areas such as product quality, delivery capacity and service level, and follow up with improvements as necessary.

Three years on, the COVID-19 pandemic has substantially altered consumers' purchasing patterns and spending habits. The flat sales model, where the Internet serves as a direct link to consumers, has been widely accepted. The integration of online and offline channels has prompted a significant shift in consumer behavior, whereby they take active decision "searching for goods" with features they need. We have responded to these market changes by carefully exploring and reworking our before– and after-sales interactive models, supported by our proprietary insights on demands and increased operational efficiency supported by data capability. We are striving to transform from a Group "providing juvenile products" to one "offering companionship to parenting families".

Our CYBEX and gb brands each have membership centers that offer targeted childcare and parenting information and product services based on member profiles, complementing our traditional services that react upon consumer request. In 2022, CYBEX had online stores in 19 countries, and the gb brand added over 6 million members. Moreover, gb's presence on social commerce sites such as Xiaohongshu, Tiktok and Zhihu as well as its online flagship stores on e-commerce platforms such as Tmall, JD.com, and Pinduoduo attracted a record high of approximately 100 million visitors during the year. Evenflo's retail partners possess strong online capabilities. The brand also sells its products through Evenflo corporate website and is exploring the possibility of upgrading its own online shopping system. During the reporting period, the Group's online and offline turnover made up 29% and 71% of its total turnover respectively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

BUILDING POSITIVE RELATIONSHIPS OF TRUST

The Group provides consumers and members with a variety of communication channels. Enquiries, suggestions and complaints can be made through our channel partners or customer service hotlines and emails of the various brands under Goodbaby International. Consumers in the PRC can also reach out to us through various social media platforms. Ways of accessing our customer services are clearly stated in all the product manuals produced by Goodbaby International (unless otherwise specified by laws and regulations). In addition, consumers can easily locate relevant information on the brands' websites.

All enquiries and complaints are logged according to categories such as information shared, accessories required and maintenance arrangements, and are handled and followed through by the relevant departments. We pay special attention to the response rate. All brands and markets set their own response timeframes in light of local conditions and complaint channels, but these are generally within 24 hours. Issues that can be solved locally will be settled in seven days and be matched up with a review mechanism when appropriate. Complaints relating to product quality and performance that are lodged with Goodbaby's customer service hotlines or distributor channels are collected and sorted by each brand's quality department for analysis, and filed as reference materials to be used for continuous product improvement.

gb Brand's Customer Service Process and Practices

The gb brand handles complaints in strict accordance with its *Customer Complaint Procedures* and *User Service Management Procedures*. The customer service center, quality center and logistics center collectively take the responsibility of resolving the complaint until the consumer concerned is satisfied. In 2022, its customer service processes and practices were further upgraded, including:

- Reduced maintenance time: the time required for accessory distribution and maintenance was shortened to three working days from five working days.
- Process optimization: designated personnel at headquarters must now follow through maintenance orders and complaints up until case closure, significantly improving handling efficiency.

The Group has constantly kept its communication channels open and proactively responded to consumer complaints. During the Reporting Period, gb brand processed 73 consumer complaints, CYBEX 100 complaint cases from the European and the North American markets, and Evenflo 159 complaints.

In 2022, the Group was involved in three disputes arising from product liability, which are currently undergoing litigation.

Customer and consumer surveys are other important ways by which the Group listens to market demand and expectations and assesses its brand images. We conduct customer and consumer satisfaction surveys regularly every year, and carry out on-demand consumer product surveys each month. To carry out the annual satisfaction surveys, each of our markets either engages a third party agent or uses their own customer service teams according to local conditions. Monthly consumer surveys focus more on gaining consumer insights into the functions, materials, packaging and brand awareness of specific products. The sample size of such surveys varies from around one thousand to ten thousand people.

gb Brand's Customer Satisfaction Survey

The gb brand's *Measures for Customer Satisfaction Survey Management* is the basis of a satisfaction survey conducted among channel customers, distributors and consumers at the beginning of each year. We carefully assess feedback on our product quality, delivery and services, and refer comments for further analysis and development or update of corrective or preventive measures as needed.

Taking into account gb's product range and categories, our satisfaction evaluations cover seven key areas: customer expectations, perception of quality, perception of service quality, perception of value, customer satisfaction, customer complaints and customer loyalty. Our surveys take the form of telephone interviews to ensure clarity. We also welcome comments on our product quality, design, merchantability, after-sales service and sales policy.

In gb's consumer satisfaction evaluations for 2022, the comprehensive satisfaction rating for durable products was 87.6/100, for nursing supplies 88.1/100, and for channels and distributors 84.6/100. Our channel and distributor partners also made suggestions and comments on market issues such as competition challenges and channel conflicts.

In April 2022, CYBEX initiated a voluntary U.S. product recall of the Sirona M convertible car seat series built before September 2018. A total of 20,256 products were recalled, accounting for 0.05% of all products sold. In May of the same year, CYBEX made available a free product improvement kit and an instruction video for proper use to all registered customers.

Consumer Letters to Evenflo

In the U.S., our regular monthly consumer group interview results show that the top four attributes of the Evenflo brand are trust, quality, safety and innovation.

Every so often, Evenflo receives emails from families with children or their relatives sharing how child safety seats helped their children survive a traffic accident.

"Thankfully my grandson was not injured when the accident occurred. My daughter was sitting at a red light and was hit from behind by the other vehicle going 75 miles per hour. We are fully confident that the only reason he wasn't hurt was because of his car seat (Gold Revolve360). It has been the best investment we could ever have made in a car seat!"

- From Anne

"I am glad I purchased the Evenflo gold car seat (Gold SecureMax) for my daughter. And I particularly love the sensor safe clip. It gives us peace of mind. I would highly recommend this product."

- From Yolanda

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As part of listening to consumers' voices, the Group has incorporated a number of activities into its product design process that utilize consumer input, such as product experience testing and design. This helps us realize customer value, and is also an opportunity for us to engage and share our sustainable practices. The Group also attaches importance to guiding consumers towards greater environmental awareness during the sales process. In the PRC, the gb brand starts with a core design and offers product matching and modular choices for accessories, which enable consumers to replace spare parts, reduce waste and extend the product life cycle.

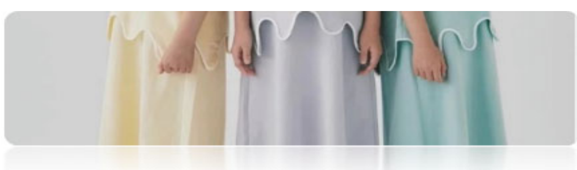
In the U.S., selected consumers are approached for us to act as bystanders with their permissions. We conduct in-field detail observation of their use of products for a couple of hours, capturing unmet consumer needs in various user scenarios directly.

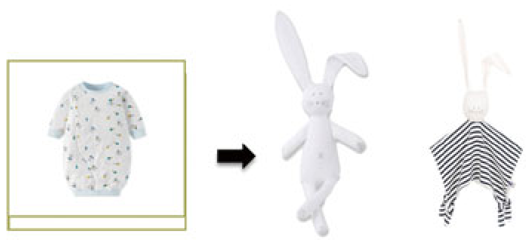
gb Promotes Environmental Protection to PRC Consumers

1) In the PRC, the gb brand connects designers with users on a common platform to unleash their creativity together.

2) We have built an upcycling platform that helps consumers to alter or repurpose their children's clothes and modify used strollers for further use.

3) We encourage consumers to reuse purchase bags, and reward them with Goodbaby points for product redemption.





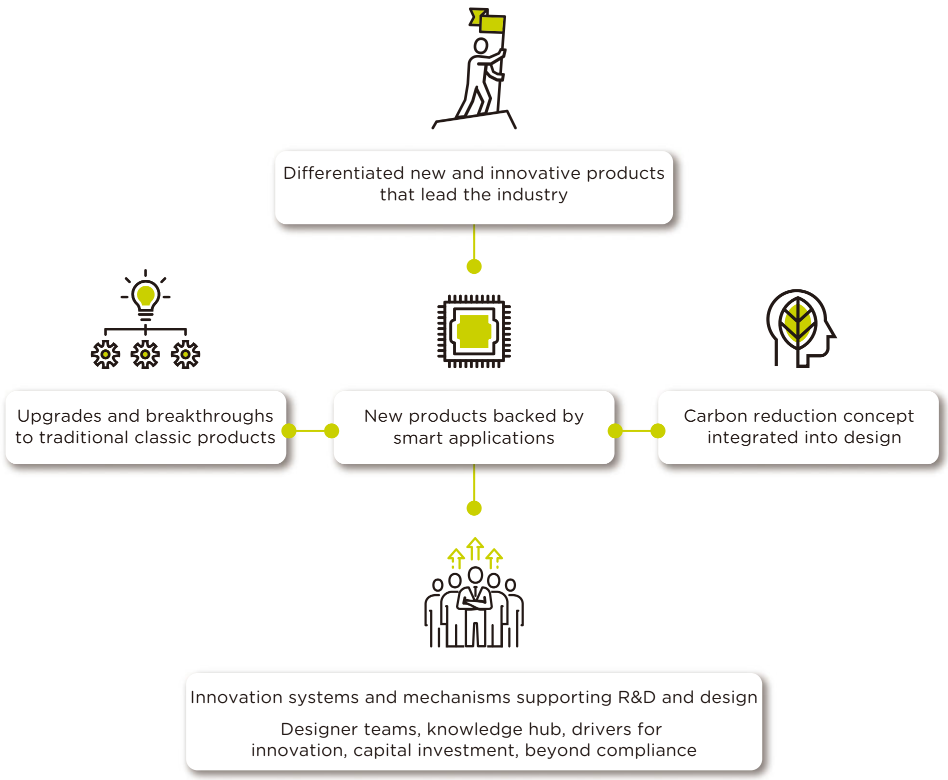
EFFECTIVE PRIVACY MANAGEMENT

The integration of online and offline retail platforms has made direct communication with consumers the new norm. We understand that we are obliged to duly protect consumers' personal data and privacy, as we innovate our product and service model.

The Group strictly abides by the *Cybersecurity Law of the People's Republic of China*, the *European Union General Data Protection Regulation*, and the *Privacy Act* in the U.S.. The Group has laid down guiding principles in its *Code of Business Conduct* on the collection, reading, storage, usage and transfer of consumer information. It has also detailed sets of rules in its *Information Security Policy* for the PRC operations, and in the *Quality Manual* and *Roles and Responsibilities of Managemen*t document for the U.S. operations. These prohibit any unauthorized access and use of consumer information, with control procedures and roles defined accordingly. Training and inspections are regularly conducted. In 2022, the Group did not record any leaks of private consumer information, nor did it receive any relevant complaints.

PART 6: INNOVATION DRIVING PRODUCT RESILIENCE

At Goodbaby International, exceptional quality and safety performance grounded on innovation is a keystone in our pursuit of excellence in product development. Through open development methods and a clear grasp of consumption trends and user scenarios, our more than 600 R&D personnel at eight R&D centers in Europe, the PRC and the U.S. have accumulated a large technological knowledge pool that is enabling the Group to continue launching innovative new products while optimising and upgrading its classic ones.



Our pace of development and innovation was not slowed by the COVID-19 pandemic. In 2022, our R&D investment reached HK$407 million and we launched more than 500 new products, vindicating our steadfast commitment to safeguarding product safety for the wellbeing of children and families.

In 2022, Goodbaby International's CYBEX brand launched a total of 71 new and upgraded products. The brand has cumulatively garnered approximately 500 safety awards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOLID ORGANIZATIONAL ARCHITECTURE UNDERPINNING INNOVATION

Goodbaby International's market leadership springs from its ability to constantly create innovative products. The Group is continuously optimising its own systems and mechanisms, and has a range of processes in place to help it identify and respond to changes in product demand among younger parenting families, cross-field applications of smart and data technologies, online and offline integration of sales models, and consumers' increasing preference for sustainable products.

Our "Integrated Product Development Model" encourages consumers to voluntarily participate in the experience testing of our product design, manufacturing and services through various channels. Related feedback is imported into our database. This database also covers industry knowledge, market intelligence and experience, such as industry recall deficiencies, forming an important knowledge basis for product design decisions.

In 2022, the Group applied for 448 patents and was granted 555 patents, bringing its cumulative number of patents granted to 3,800. The Group also applied for 130 trademarks and was granted 71 trademarks, bringing its cumulative number of trademarks granted to 2,532.

Over the years, innovation has been a major driving force behind Goodbaby International's development, and a core competitive advantage. We strictly abide by the applicable laws and regulations of the countries and jurisdictions where we operate, including the *Patent Law*, the *Trademark Law* and the *Copyright Law* in the PRC, the *Patent Act*, the *Utility Model Act*, and the *Design Act* in Germany and the *Copyright Act*, the *Trademark Act* and the *Defend Trade Secrets Act* in the U.S., and have laid down a series of related policies such as our *Policy on Intellectual Property Rights Management*, our *Mechanism on Avoiding Intellectual Property Rights Risks*, our *Control Procedures for the Implementation, Licensing and Transfer of Intellectual Property Rights*, and our *Policy on Enterprise Trademark Management*. We pay high respect to intellectual property rights in the industry, and accordingly work hard to protect our own intellectual property rights and trademarks to prevent counterfeit and inferior products and to safeguard the rights and interests of consumers.

During the Reporting Period, the Group filed a patent infringement lawsuit for which it received compensation for RMB2 million (about HK$2.31 million). The Group also won an administrative case involving the determination of trademark rights, and safeguarded its Class 12 "Haohaizi" trademark.

UPGRADES AND BREAKTHROUGHS TO TRADITIONAL CLASSIC PRODUCTS

Many of Goodbaby International's brands have maintained leading positions in their respective market segments for years. We firmly believe that only by constantly challenging ourselves and absorbing new ideas can we serve consumers over time and keep forging ahead.

We challenged the traditional thinking that child safety seats should always face forward. Taking into account the better safety performance of rear-facing seats alongside human beings' natural preference to face forward, we developed the industry's first rotatable safety seat with both forward-facing and rear-facing options. The product has won much praise and recognition in the market owing to its higher safety and more user-friendly qualities, and has set new standards for the safety seat industry.

However, when children reach the age of around 6 years, the limited stretch space of a rear-facing seat becomes evident, and the natural comfort of a front-facing seat is obvious. Children in this age group often resist the rear-facing setting. Therefore, a new mission of the CYBEX brand has been to find ways of creating a forward-facing child car seat that has the same high safety performance as a rear-facing one. This has involved us creating an airbag safety seat which inflates an airbag within milliseconds of a collision to provide head, neck and body protection for the child in the seat.

We have also continued to pursue product excellence in our mature car seat products by challenging conventions and making breakthroughs, and have won critical acclaim from respected institutions and from consumers for our excellent design and manufacturing capabilities. In May 2022, the Group's Anoris T i-Size airbag safety seat clinched the Safest Seat Award from the leading consumer testing organization Stiftung Warentest and the Allgemeiner Deutscher Automobil-Club for its unprecedented level of safety.

NEW PRODUCTS BACKED BY SMART APPLICATIONS

In 2022, Goodbaby International made product intelligence a major R&D focus. It established a science and technology innovation center where concepts and technologies such as the Internet, Internet of Things and artificial intelligence are being applied to childcare and parenting scenarios, with protecting children's safety and wellbeing as the driving force for product innovation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Main Application Scenarios

NURSING AND FEEDING	COMFORT	CARE	REST AND SLEEP	RECREATION AND SPORTS	TRAVEL AND PROTECTION

During the Reporting Period, Goodbaby International achieved progressive results in the new field of smart mother and baby products. The Group applied smart recognition technology based on infant signs and movement characteristics to its childcare product series, helping to significantly reduce the risks faced by infants and young children in certain day-to-day scenarios. This makes parenting more convenient and secure, and elevates the concept of parenting to a new level.

New Smart-based Products

- We have developed smart safety seats that can be set automatically, eliminating the risk of installation errors and reducing installation complexity for anyone driving with young children alone.
- We have also added functions such as deep sleep mode and voice control to our safety seat products, allowing a driver behind the wheel easily and safely to adjust the recline angle of the child car seat in the rear seat for more comfortable sleeping.
- To facilitate communication between infants and parents, we have integrated big data, smart technology, and infant physiological characteristics to develop a baby cry translator. This can identify different crying sounds generated by hunger, sleepiness, and discomfort, etc. with a high level of probability, enabling parents to soothe their babies quickly.
- We have applied baby cry monitoring technology to cribs, and integrated biological information and sensing technology into products such as baby seat cushions.

1) Equipped with rocking and music functions to soothe baby to sleep, the button indicator light shows the current gear (low gear, high gear, stop); 2) Rocking and music soothing functions automatically start when crying is detected.

The baby cry translator identifies different baby cries, helping parents understand why their baby is crying (e.g. hunger, tiredness, stomach pain, hiccups or discomfort) and respond to its needs more quickly.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CARBON REDUCTION CONCEPT INTEGRATED INTO PRODUCTS

Goodbaby International takes the entire lifecycle of its products into account when assessing their environmental impact and recyclability. With the European Union having implemented strict regulations on products' carbon footprints, the Group is embracing the challenge and social responsibility of providing products with more environmental benefits.

At the design stage, we have simplified product parts and packaging materials and utilized recyclable fabrics as far as practicable. For this, we take into consideration the number of parts in the structural design process, the combination of different materials, the balance between the strength and weight of materials, and the materials' recyclability. We are also making plans for the use of recyclable materials and for reducing plastics and printing in our packaging design. Clever designs that incorporate the concept of sustainable development can also help broaden the usage scenarios of our products and extend their lifecycle, reducing the consumption of resources associated with repeated purchases.

Goodbaby Bicycle – Environmentally friendly materials

Materials used in traditional child bicycles: Heavy metals and benzene

Goodbaby Bicycle: Environmentally friendly materials for frame coating, grips, decals, saddle and yarn

Goodbaby Latex Pillow – Natural latex materials

Natural latex

Green, healthy and environmentally friendly printing and dyeing process

- ✓ Annex XVII of REACH regulation
- ✓ US Consumer Product Safety Improvement Act (CPSIA)
- ✓ China GB 18401 safety technical specification

Goodbaby Crib – Natural New Zealand eco pine

Paint-free and non-toxic, green and environmentally friendly, health protection

- ✓ Obtained FSC forest management certification
- ✓ Complies with QBT 2453 national standard requirements

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PART 7: RIGOROUS OPERATION UNDERSCORING ENVIRONMENTAL BENEFITS

The scramble of struggle for natural resources arising from human activities and the rapid shrinkage of resources on the Earth have become acute in recent decades, the most obvious manifestation being the climate change. In 2016, the United Nations put forward global sustainable development goals to combat climate change. Since then, almost 200 countries and regions have committed themselves to laying down nationally determined contributions targets in accord with the Paris Agreement's goal of keeping global warming below 1.5 degrees Celsius, and further actions and legislation are expected. Against this backdrop, Goodbaby International has taken steps to steadily reduce the impact of its business activities and of its different product life cycle stages on the environment.

From the product design phase, we have systematically evaluated the carbon footprint of our materials, production, packaging, transportation and recycling. Concurrently, we have sought out new technologies and methods to improve energy efficiency, studied the feasibility of replacing some materials with environmentally friendly ones, and explored efficiency improvements in packaging and transportation. Taking an uncompromising stand against the safety and functions of our products, we have gradually promoted sustainable development measures in a rigorous manner. As for exhaust gas emissions, wastewater discharge and garbage disposal in our self-operated production activities, we have insisted on compliance with all external and internal rules and regulations. By implementing a comprehensive plan, we have managed to reduce the impact of the Group's unit output value on the environment, helping to alleviate climate change.

In 2022, the Group recorded 37,177 tonnes of CO_2 equivalent GHG emissions, and 4.48 intensity in tonnes of CO_2 equivalent per million HK dollar revenue, representing 16.21% and 2.11% year-on-year decrease respectively.

PRODUCTION FACILITY AND MANAGEMENT OVERVIEW

Most of the child car seats, strollers, carrier baskets, daily necessity products and toys manufactured by the Group are primarily composed of plastic parts, fabrics and metal structural parts such as aluminum. Consequently, our production process encompasses plastics processing, metal processing, fabric cover sewing and product assembly. The energy required for the production process is mainly electricity, while some processes require the use of natural gas. Additionally, many processes are connected to the municipal water supply for water as needed. The production processes that use the most energy are aluminum alloy processing and plastic parts manufacturing.

The Group has three production bases in the PRC, located in Kunshan, Ningbo and Pingxiang, and another two in Piqua in the U.S. and Tijuana in Mexico. The PRC production bases are the primary production sites, with the largest being that in Kunshan. In addition to production processes and supporting facilities, the Kunshan base is also equipped with staff dormitories that can accommodate more than 3,000 people, and operates shuttle buses to and from the industrial park where it is located. Of the two production bases in North America, the Tijuana base focuses on assembly whereas that in Piqua possesses injection molding and assembly capabilities. The operations in Germany concentrate on marketing, sales and channel management, with 58 maintenance centers.

Energy Demand and Emissions for Main Production Process

Raw Materials

	Aluminum Alloy Processing								Plastic Processing			Fabric Cover Processing	
Process	Hot extrusion	Metal processing	Grinding	Rinsing	Welding	Heat treatment	Pre-treatment	Powder coating & baking	Injection molding	Granule-making	Printing	Crop	Sewing
Consumption	Natural gas Electricity	Electricity	Electricity	Electricity Water	Electricity	Natural gas Electricity	Electricity Eater	Natural gas Electricity	Electricity	Electricity	Electricity	Electricity	Electricity
Emissions	Nil	Hazardous waste Noise	Exhaust gas Noise	Wastewater	Exhaust gas Noise	Exhaust gas	Exhaust gas Hazardous waste Wastewater	Exhaust gas Wastewater	Hazardous waste Exhaust gas	Hazardous waste Exhaust gas	Hazardous waste	Nil	Nil

Auxiliary Facilities

Living Facilities

canteens
staff dormitories

Warehousing

Raw material warehouse
Finished/semi-finished product warehouse
chemical warehouse
hazardous waste warehouse

Ancillary Facilities

Power distribution room
air compressor room
wastewater station

Safety seat assembly
Stroller assembly

Environmental impacts and measures taken

Hazardous gases: Each emission source is equipped with corresponding hazardous gas treatment installations to ensure the post-treatment effect meets the standards

Noise: Noise reduction equipment is used for treatment with standards met

Domestic waste: Recycled by local government or third-party service providers

Industrial wastewater: All wastewater is collected and treated by wastewater treatment station for discharge after reaching specific standard

Soil risk: Self-monitoring on regular basis

Domestic wastewater: Connected to municipal sewerage network

Hazardous waste: Gathered by qualified service providers for central handling

General solid waste: Handled by qualified general solid waste collection units for disposal

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2022, the Group further studied and ensured that the PRC production bases conformed with various laws and regulations on environment and occupational health. Of the 52 internal policies it reviewed, 23 were subsequently updated and various new policies were put into practice, including *Supervision and Measurement Control Procedures*, *Three Wastes Control Guidelines* and *Waste Control Guidelines*. During the reporting period, the production bases reported no environmental pollution accidents. They were awarded the national blue environmental protection credit rating for the fourth consecutive year, on top of being included in the environmental protection positive list.

Through years of identifying environmental risks, we have emphasized the fundamental importance of compliance for identifying risks and hidden dangers, and carried out thorough management of our environmental work and hazard elimination. In 2022, the Group completed four initiatives to further reduce the risk of environmental pollution.

In line with the *Environmental Management System – Requirements and Guidelines for Use* and the *Occupational Health and Safety Management System – Requirements and Guidelines for Use* of the PRC bases as well as the requirements specified in the *Quality and Environmental Management Manual* at the group level, an internal compliance review was carried out at the end of September, and nonconformities identified were rectified.

EXHAUST GAS MANAGEMENT AND OTHER EMISSIONS

Aluminum alloy processing generates hazardous gases such as sulfur oxides, nitrogen oxides, dust and sulfuric acid mist. Plastics processing produces volatile organic compounds and non-methane hydrocarbons during the sub-processes of injection molding and printing. All hazardous gas emission sources are managed in confined environments equipped with gas treatment devices that ensure 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. We have hired a third-party professional environmental assessment agency to regularly evaluate and report to us on pollutant emissions, in addition to our own testing and management of emissions. 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.

Fugitive Emission Transformation Project at Kunshan Plastic Factory, the PRC, in 2022

We continued to reduce the fugitive emissions of exhaust gases during the plastic granulation process, completing a centralized collection installation to ensure that the treated gas is only discharged after reaching the approved standard. We also designed a safety and noise modification improvement for the dust collector to further improve its safety and noise levels. The project has now moved into the feasibility evaluation stage.

Types of Exhaust Gases	Unit	2022	2021	2020
Nitrogen Oxides (NO_x)	Tonnes	0.38	0.62	0.85
Sulfur Oxides (SO_x)	Tonnes	0.02	0.12	0.60
Particulate Matters (PM)	Tonnes	1.10	1.00	0.92
Volatile Organic Compounds (VOCs)	Tonnes	0.43	0.80	–

WASTE MANAGEMENT AND RECYCLING

Hazardous waste generated during the production process mainly comes from the processing of aluminum alloys and plastics, and includes waste emulsion, waste mineral oils, waste sulfuric acid, waste activated carbon, waste surface treatment liquid, retired containers for hazardous waste and oily rags. The Group has a series of policies and measures for disposing of hazardous waste that include *Hazardous Waste Identification Standards, Hazardous Waste Collection and Storage Management System* and *Hazardous Waste Disposal Procedures* for its PRC production bases. It has erected signage identifying designated waste storage spaces at specific locations. Qualified professional agencies collect the hazardous waste for decontamination, in accordance with the regulations of different countries. The policies and measures facilitate systematic control of the generation, collection, storage and transfer of hazardous waste.

Improvement of Handling of Industrial Solid Waste at PRC Production Bases

- General solid waste and hazardous waste warehouse responsibilities assigned to specific posts
- Renovation of chemical warehouse and hazardous waste warehouse at Pingxiang base
- Improvement of hazardous waste warehouse and video monitoring of flow of hazardous waste at Ningbo base

The Group also generates general solid waste throughout the production process, including waste metals, waste plastics, waste wood and waste packaging materials. The Group's PRC business recycles scrapped product parts according to its *Waste Management Regulations* and its *Waste Disposal Management Policy*. Crushed and scrapped waste plastics and leftovers are collected and melted into granules, while the remaining non-hazardous waste items are passed 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 waste handling.

Waste Recycling

The Group is exploring ways of recycling industrial waste in the production process. At its production bases in the PRC and the U.S., waste plastics generated in the injection molding process are collected, regranulated and reshaped into non-load bearing parts, such as cup holders in child strollers. During the reporting period, the Group recycled a total of 59.15 tonnes of waste plastics.

Types of Waste	Unit	2022	2021	2020
Hazardous Waste	Tonnes	304	377	195
Intensity of Total Hazardous Waste produced	Tonnes/Million Revenue (HK$)	0.04	0.04	0.02
Non-hazardous Waste	Tonnes	1,781	1,686	1,662
Intensity of Total Non-hazardous Waste produced	Tonnes/Million Revenue (HK$)	0.21	0.17	0.20

Note: The total amount of non-hazardous waste disposal in 2022 included office and domestic waste and non-recyclable industrial waste. In 2021, only office and domestic waste was counted.

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Types of Recycled Waste	Unit	2022	2021	2020
Plastics	Tonnes	1,097	707	704
Metals	Tonnes	879	767	780
Packaging Materials/Cardboards	Tonnes	983	1,315	1,431
Other Ancillary Materials	Tonnes	271	298	325
Total Volume of Non-hazardous Waste Recycled	Tonnes	3,230	3,087	3,240
Intensity of Total Non-hazardous Waste Recycled	Tonnes/Million Revenue (HK$)	0.39	0.32	0.39

WATER USE AND DISCHARGE

The Group's primary water consumption is by staff dormitories at the Kunshan production base in the PRC. The demand for water in production is relatively small, arising mainly from rinsing and spraying in the pre-treatment of aluminum alloy processing. In 2022, the Group's total water consumption was 816,516 cubic meters, and its water consumption intensity was 98.47 tonnes/million revenue (HK$).

In the PRC, waste water is transported to the waste water treatment station of each production base or entrusted to a qualified third party for treatment and discharge after reaching discharge standards, in accordance with the Group's *Waste Water Management Regulations* and related rules. Online detection instruments for real-time monitoring are in place to ensure that the total amount and concentration of discharges meet the requirements of the *Pollutant Discharge Permit* issued and approved by the government.

Rain and Sewage Diversion Project

Rainwater and domestic sewage from the Kunshan production base in the PRC is carried by two independent pipe networks. However, during high-frequency and heavy rainfall events, areas where old pipe networks intersect may allow domestic sewage to seep into the rainwater drainage system and eventually flow directly into the river. This poses a potential risk of river pollution.

In 2022, we renovated the network and completely disconnected the two pipe networks. We also installed two new pumping stations and a real-time pH monitoring device outside the rainwater discharge outfall. If the pH value exceeds the standard, the discharge valve will automatically close, stopping the outflow of water and redirecting it into the domestic sewage system.

Industrial Wastewater Management Project

Up to 2022, industrial wastewater from our Kunshan production base in the PRC was directly discharged into the river after treatment, with the permission of the local government. To reduce the risk of industrial wastewater being treated incorrectly and causing river pollution, in 2021 we began discussions with the local government which led to a re-planning of the discharge in 2022. The industrial wastewater from our factory is now incorporated into the municipal sewage pipe network after meeting the treatment standard, and undergoes a second round of handling at the local sewage treatment plant prior to final discharge into the river.

Water Consumption	Unit	2022	2021	2020
Water Consumption by Volume	Cubic Meters	816,561	827,467	742,829
Water Consumption Intensity	Cubic Meters/ Million Revenue (HK$)	98.47	84.08	89.44

Wastewater Discharge	Unit	2022	2021	2020
Chemical Oxygen Demand (COD)	Tonnes	0.37	0.67	0.26
Total Nitrogen (TN)	Tonnes	0.02	0.03	0.20
Total Phosphorus (TP)	Tonnes	0.002	0.001	–

CLIMATE CHANGE AND GHG EMISSIONS

With the rise in global temperatures in recent years bringing frequent natural disasters, financial damage and crop failures, addressing climate risks is high on the agenda of both governments and industries. Both China and EU countries have announced their nationally determined contributions targets, and consequently improving energy efficiency and resource use have become important sustainability issues for industry leaders.

Goodbaby International has business operations in many countries, each with different climate challenges and different national climate policies. 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 its worldwide business activities and climate change. With the Group's strategic planning as guidance, we have fully analyzed existing supply chain landscape and geographical coverage of sales network, as well as national climate policies, and have identified physical and transitional risks to evaluate potential financial impacts.

Emission Reduction Request from a Client

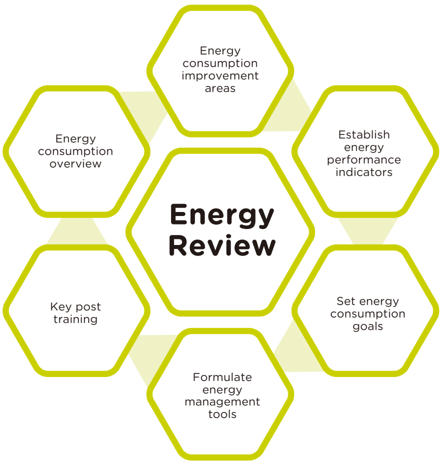
Following increasing regulatory requirements and industry-wide awareness of emissions reductions, we have received enquiries from a blue-chip customer about the types of energy used in our production as the customer explores the possibility of using clean energy for the future manufacture of products. This push from the supply chain has prompted us to explore new options for reducing the carbon footprint of our materials, components and products.

The Group's GHG emissions mainly come from electricity and fuel consumption, so we are focused on enhancing the efficiency of our usage of energy and natural resources. On the one hand, we are exploring and utilizing feasible new technologies and modifying our existing equipment as necessary; on the other, we are kickstarting a systematic energy consumption screening and assessment process and implementing its findings in our daily operations.

Over the past decade, our production bases in the PRC have developed annual targets for energy conservation and emission reduction, driving concrete actions across all our business segments. After all three PRC production bases were fully ISO 14001 and ISO 50001 certified for their environmental and energy management systems, the Group set up a special team in 2022 to conduct an energy review to determine the current status of energy management, and identify problems and areas for improvement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Setting the Carbon Inventory Basics for PRC Production



The Group's three production bases in the PRC completed an energy review in 2022 for the period from 1 September 2021 to 31 August 2022. It covered consumption of electricity, natural gas, diesel and water in the manufacturing of approximately 2.7 million child strollers and 2 million car seats, and referenced over 30 industry standards.

The review covered the energy consumption of all equipment and facilities in all plants and workshops, based on our internal *Identification, Evaluation and Control on Use of Energy* policy and taking into consideration operational variables such as production volume, operating hours, process parameters, human factors, as well as floor area, capacity level, shift and product scope. A primary equipment inventory with corresponding sources of energy titled *Log Book of Major Energy Consumption (Process/ Equipment)* and *Major Energy Control Posts and Employees* was produced, which included potential improvement opportunities in energy management.

We have identified the energy consumption ratio of each workshop, among which electricity consumption of the plastics plants accounted for around one-third of the total electricity consumed by all production bases in the PRC. Four management and three technical areas of improvement were formalized, and relevant teams were made accountable for the measurable implementation of improvements.

Energy Management

1. Extrusion machine, T4 and T6: consolidated operation with time control
2. Compressor: controlled air volume and improved ventilation
3. Centralized air-conditioning: tightened control
4. Fixed machines: improved maintenance

Technical Improvements

1. Eliminated outdated high energy consuming equipment
2. Replaced with frequency conversion compressor and cool dryer, and reworked the ducting
3. Changed lighting for energy-saving lighting

The Group has made significant progress in improving production energy efficiency in both the PRC and the U.S.. In the PRC production bases, efforts mainly included replacing low-efficiency equipment. A three-year air compressor revamp project was completed during the year, with the 77 air compressors consuming 35% less energy after modifications. At the end of 2022, the average price of electricity at the PRC production bases was approximately 20% higher than at the beginning of the year while the oil price was 80% higher, saving energy and enhancing energy efficiency also helped to lower production costs.

The Piqua production base in the U.S. is mainly engaged in injection molding and assembly. Its carbon emissions primarily come from electricity consumption, with a small percentage from its self-owned vehicles. Due to the city's water and photovoltaic facilities, 25% of the site's operational electricity comes from renewable sources, and the office uses LED lights to reduce lighting energy usage.

In 2022, the Piqua base launched two new environmentally friendly projects, adopting Hi-tech Injection Molding Technology to improve the production and energy use efficiency of injection molding machines, and replacing self-produced product packaging boxes with environmentally friendly cartons.

Kraft Carton Upgrade Project

Replacing the original white packaging with kraft cartons helps lower environmental impacts in terms of carton material and paint usage. In 2022, the Piqua base switched to using kraft cartons for its own products and expects to cover all products by early 2023.

Hi-tech Injection Molding Technology Project

The Hi-tech Injection Molding Technology is expected to reduce the time needed for injection molding process by 20% at the Piqua base, resulting in a reduction in energy consumption. The technology also reduces resin use by 3%. Preliminary studies and tests have shown that this hi-tech injection molding technology can achieve energy efficiency with economic benefits. It is currently in the trial and validation phase.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To reduce carbon emissions from logistics, the Piqua production base has looked into re-routing imports of raw materials by changing its import port from the West to the East coast, and analyzed carbon emissions of shipping distances and vehicles. This has enabled it to come up with an alternative solution which could reduce carbon emissions throughout the logistics process by nearly 20%. This plan will provide a solid sustainability base for future logistics decision-making.

Total energy consumption for the year fell by 12.26% to 70,357 MWh and GHG emissions down by 16.21% year-on-year to 37,177 tonnes of CO_2 equivalent, due to a lower level of production and the adoption of energy-saving measures.

Types of Energy	Unit	2022	2021	2020
Unleaded Gasoline	MWh	413	615	1,339
Diesel	MWh	664	1,387	3,846
Natural Gas	MWh	9,508	12,119	8,208
Liquefied Petroleum Gas	MWh	59	129	82
Total Direct Energy Consumption	MWh	10,644	14,250	13,475
Purchased Energy	MWh	59,713	65,936	64,819
Total Indirect Energy Consumption	MWh	59,713	65,936	64,819
Total Energy Consumption	MWh	70,357	80,186	78,294
Energy Consumption Intensity	MWh/Million Revenue (HK$)	8.48	8.27	9.43

Note: *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 the "Energy Statistics Manual" issued by the International Energy Agency (IEA).*

GHG Emissions	Unit	2022	2021	2020
Direct GHG Emissions (Scope 1)	tCO_2e	2,543	4,140	2,983
Energy Indirect GHG Emissions (Scope 2)	tCO_2e	34,634	40,228	50,506
Total GHG Emissions (Scope 1&2)	tCO_2e	37,177	44,368	53,489
GHG Emissions Intensity	tCO_2e/Million Revenue (HK$)	4.48	4.58	6.44

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.*

Consumption of Product Packaging Materials	Unit	2022	2021	2020
Plastics	Tonnes	927	1,992	1,727
Cardboards	Tonnes	13,798	21,344	17,454
Total Product Packaging Consumption	Tonnes	14,725	23,336	19,181
Product Packaging Consumption Intensity	Tonnes/Million Revenue (HK$)	1.78	2.41	2.31

PART 8: PROTECTING EMPLOYEES' RIGHTS AND INTERESTS AND ENSURING OCCUPATIONAL SAFETY

In 2022, the COVID-19 pandemic continued to rage with many ebbs and flows. The global economy began gradually to recover, but the recovery remained uneven, with businesses around the world facing unprecedented challenges in an uncertain environment. Countries adjusted their public health measures at times to contain the situation, and travel restrictions were widely imposed. The consumer market was inevitably impacted by these developments. In response, Goodbaby International refined its management arrangements, pursued cost reduction and efficiency enhancement initiatives, and streamlined and optimized its departmental structure and organizational deployment to better align the internal resources at the Group. As we tightened our operations in the face of the pandemic, we remained fully committed to investing in talent development that would transform our human capital into a catalyst for corporate efficiency and future growth.

The Group set up management protocols to fight the pandemic in its three home markets, in each case addressing specific local challenges. We strived to maintain normal operations while ensuring a safe environment for all employees at work, and to achieve a good balance between corporate constraints and staff expectations.

In the PRC, the Group strictly adhered to national policies and assiduously undertook a range of COVID-19 prevention and control activities. At the height of the pandemic, we cooperated closely with local authorities to implement closed-loop management. We gave our staff volunteers training in nucleic acid testing and helped local governments to carry out community testing, on top of conducting such tasks within our organization.

In the U.S. and Europe, the Group also launched a series of anti-COVID measures in line with the requirements of the local disease prevention and control authorities and specific circumstances. We spared no effort to execute these effectively to minimize the impact of COVID-19 on our workforce and our business operations.

CORPORATE CULTURE AND EMPLOYMENT POLICY

As a leader in the juvenile products industry, Goodbaby International operates in a highly responsible manner in its pursuit of business excellence. Adhering to its consumer-centric strategy, the Group is committed to becoming an outstanding enterprise within its industry, with strong global and future-ready competitiveness. We strive to constantly improve children's quality of life through our products and services, contribute value to our consumers and enable our employees to realize their value.

Goodbaby International operates in line with the United Nations' Sustainable Development Goal "Decent Work and Economic Growth", and strictly abides by the labor laws and employment regulations of all the markets where it operates. The Group's *Code of Business Conduct* sets out its principles, directions and requirements for ethical behavior in various business practices. It is applicable to all employees (i.e. full-time, part-time, consulting and temporary outsourcing staff), and serves as a basis for refining relevant rules and systems in different regions.

The Group's global human resources work is led by the Chief Operating Officer. Regular monthly global meetings are held to establish management rules and policies in human resources, introduce major human resources topics, share experiences and case studies from different business regions, and discuss projects in progress. In line with their different business structures, each of our home markets has human resources policies, measures and work plans in place that observe local laws and regulations and specific national conditions.

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The Group is committed to creating a working environment that fosters mutual respect and trust, allowing employees to work in a fair atmosphere. We are respectful of every individual including employees, consumers and business partners, as well as the cultures of different countries and regions. Our *Code of Business Conduct* and employment-related policies clearly state that all employees deserve equal opportunities in employment and other personnel activities covering recruitment, employment, promotion, transfer, remuneration, benefits, and training, and that employee diversity is beneficial to the Group's business growth. It also states that no employee may be treated differently on account of gender, age, race, sexual orientation, marital status, religion or cultural background.

In the U.S., our *Equal Employment Opportunity Policy* affirms our stance of taking action to employ, advance and treat qualified Vietnam-era veterans and disabled veterans without discrimination. We provide equal employment opportunities to all employees and applicants for employment with respect to selection processes, terms and conditions of employment, benefits and termination.

Goodbaby International strictly abides by all laws and regulations on the prohibition of the use of child and forced labor. Through precautions taken during the recruitment process for full-time, part-time and contract workers, we pay special attention to avoiding the employment of under-age workers or allowing forced labor, and require our suppliers to commit to this. During 2022, no case of employing under-aged workers or forced labor were identified in the Group. We also have zero tolerance for any unlawful discrimination, harassment or other violations of laws and regulations.

The Group makes appropriate adjustments to job deployment based on work needs, and employees are welcome to apply for job transfers according to their abilities and wishes. We fully support internal transfers and advancement, and look to cultivate and promote talents from within by offering opportunities to those with the required job skills, exceptional performance, or high potential. We believe this not only improves personnel mobility, but also helps facilitate cross-functional collaboration and capacity building in the organization.

RESPECTING AND PROTECTING EMPLOYEES' RIGHTS AND INTERESTS

Goodbaby International has 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 an array of insurance options. Remuneration policies are reviewed and updated annually by the human resources departments in each of the Group's three home markets, to ensure we attract talent effectively and maintain workforce stability.

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. In 2022, in line with the move of the State Council of China to optimize the country's birth policies and the suggestions in the *Implementation Plan of Jiangsu Province on Improving Birth Policies to Promote the Long-Term and Balanced Population Development*, the Group enhanced its childcare-related policy, extending maternity leave, nursing leave and parental leave for employees to make certain that the maternity rights and interests of women are fully protected. Similarly, we are also studying policies for the support of elderly care for one-child parents. In the U.S., we modified our holiday schedule for Evenflo staff to embrace diversity, equity and inclusion-specific holidays from 2023. Besides, CYBEX employees can take emergency time-off to look after their children if they fall sick, in addition to regular leave entitlements.

Goodbaby International has a whistleblowing policy. 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.

The role of the Employees' Representatives Conference in the PRC

In the PRC, a trade union is duly formed within an organization in compliance with the *Trade Union Law*. The Group concludes a "Collective Contract" with the union in accordance with relevant rules and regulations, which includes honoring and protecting employees' rights and interests in the areas of salary payment, working hours, rest days, holidays and leave, occupational safety and health, specific protection for female workers, social insurance and welfare, and vocational skills training.

An Employees' Representatives Conference, which comprises elected employee representatives, is held at least once a year. It has the power to discuss and review the company's major reform plans, salary adjustments, employee welfare, social insurance, housing provident fund payments, and other policies, rewards and penalties involving the vital interests of employees.

Any major matters directly related to the vital interests of employees that call for revision or update warrant a discussion with the Employees' Representatives Conference and all employees. Decisions are only arrived at through negotiation with the trade union or union representatives. The management of the company implements and handles relevant resolutions and proposals put forward by the Conference, which can inspect and supervise their work.

Through roundtables organized by the trade union, employees are encouraged to voice their opinions on company affairs. In 2022, such activities generated a total of 53 pieces of feedback, of which 39 were directly or indirectly associated with labor rights and interests. As at 31 December 2022, all these items were resolved.

In the U.S., Evenflo staff become DEI Ambassadors

In the U.S., promotion of diversity and inclusion has continued and is a regular topic of discussion. The Group's U.S. operation is committed to making diversity and inclusion an integral part of its workplace culture. We embrace fairness and community through every employee and acknowledge a diverse mix of minds, identities, backgrounds and experiences, aiming to bring out the best in everybody.

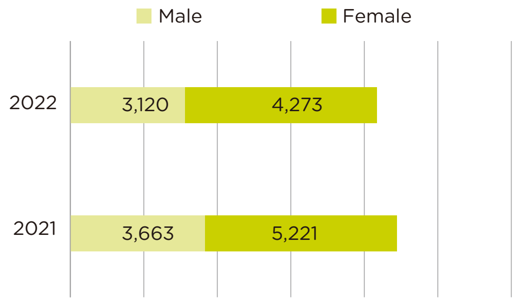
Led by the Employee Resource Group, the diversity, equity and inclusion ("DE&I") team has so far had 13 DEI Ambassadors from different managerial levels attached to virtually every functional department. They advocate, promote and participate in DE&I initiatives in the company as well as in their local communities, unleashing the potential of the organization and staff members and helping to expedite individuals' personal and professional growth. This is also helping us to attract and retain top talent and create a better future for the benefit of our customers, partners and the community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

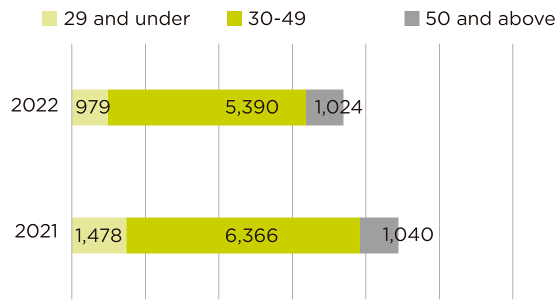
As at 31 December 2022, the Group had a total of 7,393 employees around the world, down by 1,433 from the previous year. This was mainly due to the Group's efforts to optimize its organizational structure and improve its sales and operational efficiency. During the reporting period, the number of employees in the PRC, the Americas and EMEA all went lower than the previous year, with a rate at a controlled level. There were also 53 part-time employees. The Group's overall employee turnover rate was 45.60%.

Employee distribution by gender, age group, geographical region and employee category

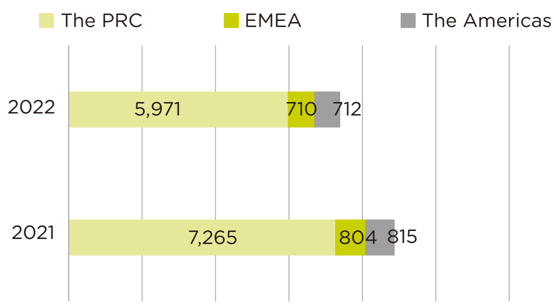
Employees by gender



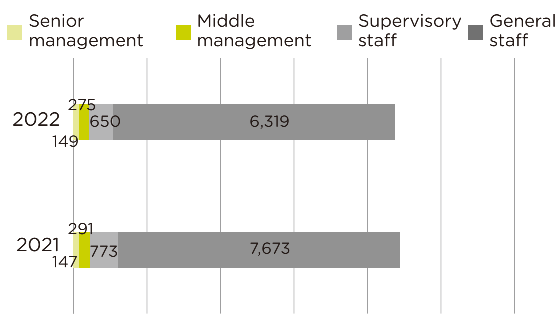
Employees by age group



Employees by geographical region



Employees by employee category



In 2022, the Group's employee turnover rates by category were as follows:

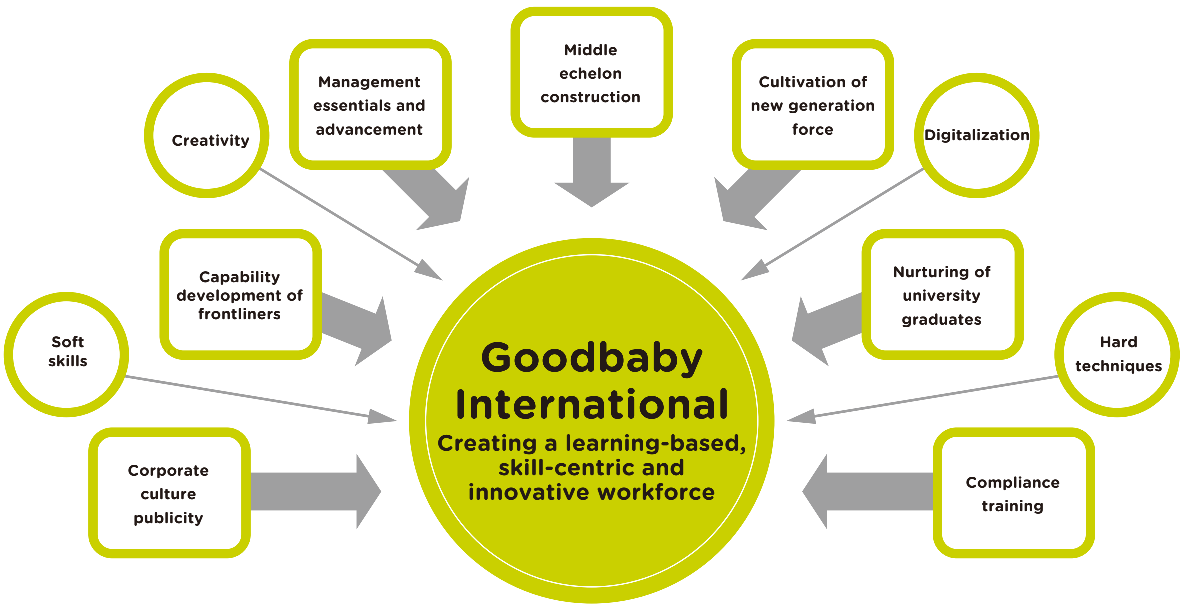
Employee turnover rates by category	2022	2021
Male	46.46%	34.26%
Female	44.99%	36.19%
Aged 29 and below	100.65%	68.85%
Aged 30-49	36.18%	29.82%
Aged 50 and above	36.13%	23.42%
The PRC	45.68%	32.22%
EMEA	28.23%	18.67%
The Americas	62.07%	44.61%

ENABLING EMPLOYEE DEVELOPMENT

Goodbaby International believes that an impactful employee development plan should not just focus on job promotion, but also involve ways of acquiring knowledge and skills through reading, listening, exploring and practising in a journey of continuous learning and self-growth. The Group has developed a career training system based on the characteristics, conditions and requirements of each job, supported by training funding as per internal procedures, which is providing employees with systematic and well-planned occupational skills training.

The ebbs and flows of the COVID-19 pandemic presented new challenges for delivering some of our trainings in our home markets. Although several training initiatives had to come to a temporary halt, the Group's vision for employee training and development and the corresponding framework for training planning have remained unchanged.

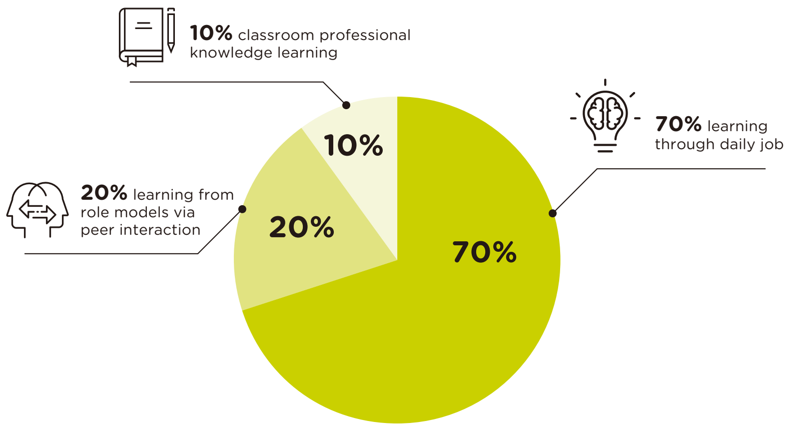
Goodbaby International's Employee Training and Development Framework



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group regularly conducts an employee survey to identify key training needs before finalizing its annual training planning plan. The results of the survey are important for planning the scope of the training program in a way that balances business needs, performance results and organizational capacity. In the PRC, employee performance management includes not only assessing employees' performance but also engaging in constructive dialogue with them on potential development areas and capability requirements, mainly through performance feedback and career development planning interviews. We strive to tap our employees' full potential, allowing them to further develop themselves in their work by formulating personal development plans for each new year.

Training Structure for 2022 in the PRC



In 2022, Goodbaby International in the U.S. launched its first multi-year online leadership training program for executives in the post-pandemic era. With 11 participants, the program covers topics that include People Smart Leader, Leadership and Influence, Discover Your Team Type, Creating Alignment and Taking Action, and Diversity, Equity and Inclusion for Leaders. The expected completion date is mid-2023.

In the PRC, the Captain Program for building up the management echelon carried over into 2022. With 28 managers taking part, the program followed a blended learning model and had its curriculum expanded to include mentoring, phased workshops, classroom learning and research studies. A solid list of modules formed an integral base for the program, namely MBA Enterprise Management, Ultimate Leadership, Effective Team Building, Evaluation and Application Workshop, Business Planning Workshop, Essence of Project Management, Practical Project Management, Interdepartmental Collaboration, Winning Communication, as along with management case studies and reading and sharing. Its goal is to nurture a group of high-potential managerial candidates and equip them with agile thinking and organizational skills.

Goodbaby International has responded to the national "Strategy on Developing a Quality Workforce" in the new era by implementing various measures for "Cultivating the Company's Skilled Talents and Stabilizing Core Talents". Our production bases in the PRC have carried out pre-job training, professional skills ranking identification and project-based training to speed up the development of a highly skilled workforce. The Group recognizes that professional qualification evaluation can serve as a motivator for frontline employees, since it gives those who are on a progressive skills grading scale the opportunity to have their professional skills evaluated and recognized. During the year, the number of participants in the evaluation scheme increased by 39.29% year-on-year, and a total of 523 employees passed the evaluation. Against this backdrop, our production bases saw expansions in both types of work and skill levels, adding new positions such as senior draftsman, junior and intermediate stamping workers, sewing technician and assembly technician. Employees' salaries and benefits will also be adjusted in keeping with the new ranking. Over the years, we have worked hard and steadily to develop the skills of frontliners and back their career advancement. Our initiatives to drive this have received tremendous support from our frontline employees.

In 2022, the total hours of training provided for employees in the Group's three home markets reached 127,919 hours.

Goodbaby International's Online Learning Platforms

The PRC Cloud Learning Academy

- Launched in **2019**, Cloud Learning Academy is an upgraded version of the previous Spark virtual learning platform, which has effectively supplemented on-site training during the COVID-19 pandemic.
- As at the end of 2022, the cumulative number of online courses offered by Cloud Learning Academy reached **4,300**, up by 358 from the previous year.
- Courses on offer cover digitalization in manufacturing, financial management, supply chain management, gist of environmental and safety management system, lean production, product engineering, detection and testing technology, skills appraisal, quality management, sales management, leadership development, career development, party building management, teamwork and communication, and compliance training.
- In 2022, the number of employees taking part in online training stood at **3,685,** an increase of **9.74%** compared with the previous year.

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The U.S. Goodbaby University

- Since its inception in **2019**, Goodbaby University has transformed into a large-scale learning platform in just over three years, offering comprehensive training support to the Group's U.S. operations.
- As at the end of 2022, the cumulative number of online courses offered by Goodbaby University was **500**.
- It is a self-service training site for participants to access professional opportunities at their own pace. The content covers compliance, management, wellness, supervisory and management soft skills and more.
- Dedicated pages and courses have been added on "Diversity, Equity and Inclusion".
- In 2022, a total of **110** employees took part in online training, an increase of **25%** compared with the previous year.

Percentage of Employees Trained, and Average Training Hours by Gender and Employee Category

	Number of employees trained			Average training hours	
	2022		2021	2022	2021
Employee training rates by category	No. of employees	Percentage	Percentage	Hours	Hours
Male employees	1,891	56.10%	52%	15.56	18.7
Female employees	2,374	50.38%	46%	16.02	22.7
Senior management	52	33.55%	17%	3.64	7.0
Middle management	146	50.50%	12%	5.19	5.4
Management	305	42.40%	35%	9.80	16.6
General staff	3,762	54.36%	52%	17.17	22.4

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNICATION AND EMPLOYEE CARE

Goodbaby International strives to create an open communication environment for employees in which they can freely communicate with their supervisors and other managerial colleagues. This allows us to provide timely feedback to questions and take up suggestions put forward by our employees, continuously enhancing the management of the Group.

Ways of communication between employees and management vary depending on the business region. Options include email, WeChat, public notices, staff seminars, staff interviews, regular work meetings, and staff suggestions box/CEO mailbox. Employees can raise complaints about work-related issues, labor conditions and other employee relations matters with their supervisors, who have the responsibility to respond without delay.

In the PRC, the Human Resources Department conducts employee engagement survey (formerly known as employee satisfaction survey) in accordance with the usual practice. The survey for 2022 was themed on four main categories: employee value, employee growth, employee efficiency and employee protection. Employees were invited to share their opinions on the aspects of corporate prospects, training and development, work teams as well as work environment. More than 85% of employees responded to the survey, in which all the categories gained an average score of four on a five-point rating scale and a "satisfactory" grade. Employees generally appreciated the Group's efforts put into management and communication. The survey results have been fed back to the management and relevant measures for enhancement will be carried out in 2023.

UPHOLDING PRODUCTION SAFETY AND OCCUPATIONAL HEALTH

For Goodbaby International, production safety and occupational health are integral parts of its overall quality management. In the PRC, our three production bases in Kunshan, Ningbo and Pingxiang strictly comply with the *Work Safety Law,* the *Law on the Prevention and Control of Occupational Diseases,* the *Implementation of the Regulations on Work-Related Injury Insurance* and other relevant labor protection-related laws and regulations of the country. We are constantly looking to enhance our labor safety and health management policies, faithfully implement labor safety and health regulations and standards, and ensure our labor safety and health facilities meet national standards. Additionally, we have set up a clear labor safety responsibility policy, formulated safety operation procedures for each post, and provided essential protective equipment in line with labor safety and health requirements. All three of our PRC production bases hold ISO 45001 Occupational Health and Safety Management Systems certification.

Our production bases in Piqua in the U.S. and Tijuana in 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. We take our responsibility to provide a safe and healthy workplace for employees on all fronts.

In 2022, the Group conducted an annual review of its PRC production bases and updated various safety management policies and documents accordingly. These included the *Safety Production Responsibility Policy,* the *Accident and Hazard Inspection and Control Policy,* the *Policy on Safety Management of Key Devices and Key Parts,* the *Work Accident Management Policy,* the *Fire Safety Management Policy,* the *Occupational Health and Safety Management Manual* and the *Policy on Safety Production Education and Training Management*. In conformity with the *Law on the Prevention and Control of Occupational Diseases*, the Group also formulated and implemented an annual occupational health work plan, which included:

- Organization and responsibilities: updating the *Responsibility Policy on the Prevention and Control of Occupational Diseases* for 2022
- Policies and procedures: improving or updating the *Occupational Health Management Policy* and its operating procedures
- Plan development: formulating the 2022 plan on the prevention and control of occupational diseases as well as related implementation programs
- Standard development: formulating or updating the configuration standards and usage guidelines for personal protective equipment
- Detection: detecting occupational hazards in the workplace
- Training: training for personnel exposed to occupational hazards
- Health check-up: occupational health screening and body checks
- File building: filing of employees' personal occupational health monitoring records
- Drill: emergency drills for occupational hazard accidents

Our management of policies on occupational diseases prevention and control and relevant responsibilities was strictly implemented. We delegate related occupational health targets and performance indicators to respective departments or functions based on our organizational structure, designating areas of responsibilities throughout the hierarchy. We regularly check all occupational hazards at work premises and evaluate issues that are identified. These primarily include noise from metal processing and arc light from welding. Positions involving these tasks operate in shifts, and there are routine health checks to ensure occupational health and safety.

We keep our grip firmly on occupational health and safety through multiple security checkpoints in the areas of machinery safeguards, personal protection, real-time monitoring and employee health checks. In 2022, our production bases in the PRC launched a research study on noise and made plans for reducing the impact of noise sources by optimizing or upgrading noisy equipment such as stamping machines and engraving and milling machines.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Monitoring of Occupational Health

Continuous Improvement at PRC Factories

Separation of people and vehicles – shelf aisles, workshop aisles

Special management of forklift charging area – independent room for isolation, configuration of fire emergency measures

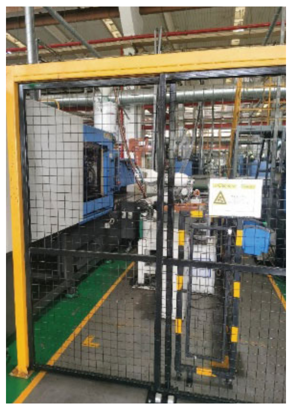
Emergency pull switch facilitates rapid power-off to ensure safe operation of equipment in long production line

Partition protection in welding workshop

Electrical control parts of single and double bending machines and stamping machines moved to the outside of the protective fence to lower risks in electrical control systems during inspection and maintenance

Upgrade of safety protection for engraving and milling machines and extruders. Main electrical control systems have been reconfigured and placed outside to reduce risks in operation and programming

Upgrade of polishing machines and spraying lines with enhanced safety installations such as hydrogen alarm system and water level gauge



Safety interlock device for automated machinery in plastic factory

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Every year our PRC production bases arrange a health check-up service for employees. Through Goodbaby's staff club, the "Health House", employees would have the risk analysis in their health check report explained to them. A variety of health management programs and fitness equipment have also been provided, allowing employees to work out during break times. Our U.S. work premises include their own medical clinic, making it the first and only enterprise to launch such an initiative in the region, and one which has been broadly welcomed by our employees. In Europe, we maintain a company doctor at our German operations to advise employees on general health-related issues and to assist on-site in the implementation of mandatory health and safety measures, such as vaccinations during the COVID-19 pandemic.

In 2022, our three production bases in the PRC conducted a total of 30 emergency drills. These encompassed equipment drills (such as pressure pipes, boilers, forklifts), along with drills for hazardous waste warehouse and hazardous chemical leakage, electric shocks, falling from heights, being struck by objects, confined spaces, factory fire evacuations, and professional fire brigade drills undertaken by the security department.

During the Reporting Period, none of the Group's five production bases experienced any major production safety incidents or fatal accidents. The number of lost working days logged due to work-related injuries was 94 days.

Health and safety indicator	Unit	2022	2021	2020
Number of work-related fatalities	Person	0	0	0
Rate of work-related fatalities	%	0	0	0

Goodbaby International's high standards of labor practices cover production and workplace safety and occupational health standards. The Group also advocates these standards to its suppliers and business partners, and regularly shares its experiences with them. Our *Supplier Guiding Principles Policy* clearly states our expectations of suppliers with regard to production safety and occupational health, workplace discrimination, child labor and forced labor, and seeks for a reciprocal establishment of similar labor standards.

PART 9: CONTRIBUTING TO SOCIETY AND LOCAL COMMUNITIES

With a global footprint, Goodbaby International is rooted in its three home markets and serves hundreds of millions of families with children across the world. The Group's mission is "Care for Children, Serve Families and Give Back to Society", and it is keen on partnering with public organizations involved with the wellbeing of families and communities. The Group has received much praise and recognition for its positive influence made in the countries and regions where it operates.

The Group's operations in the U.S. took a step forward by introducing a *Volunteer Time Off Policy*, giving its employees time to support their local communities through civic and charitable volunteer activities. Employees can volunteer to serve a charitable organization during company time for up to 20 hours per calendar year. Time spent volunteering under the policy will be considered as paid time off.

During the year, restrictions on travel and group gatherings due to the COVID-19 pandemic made it necessary for the Group to reduce or cancel some of its planned community and volunteer services in various locations. Nonetheless, wherever feasible we maintained connections with local communities, providing timely and concrete support.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2022, following a "Meat Free Monday" campaign that had been personally led by the Group's Chief Executive Officer the previous year, our PRC operations organized for the second time a vegetarian day named "Meatless and Vegetarian Threesome" to promote a healthy, energy-efficient and sustainable meat-free lifestyle to colleagues. By introducing the health benefits of a vegetarian diet and the concept of environmental protection, it helped more people recognize the need to be part of the transition to carbon neutrality. The event attracted more than 1,000 employees, who jointly shared over 12,000 vegetarian action stories on the Group's WeChat platform and Cloud Learning Academy. Their collective green actions helped reduce global emissions by the equivalent of over 9,000kg of carbon dioxide.

THE PRC

International Autism Awareness Day in April saw our gb brand partner with the China Social Welfare Foundation in a charitable event called "Blissful Sunflowers" in which local communities were invited to come together for the autistic children. The brand organized a charity bazaar to raise funds for the autistic children's fund and contribute to the treatment and rehabilitation of children with autism.

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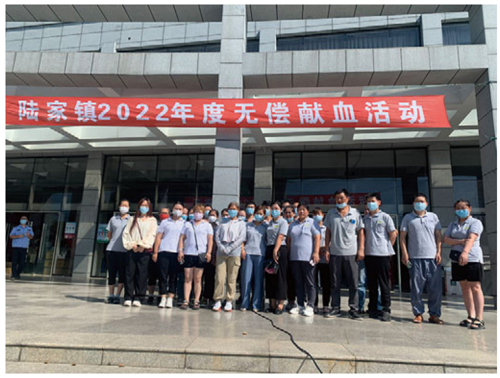
In August, our PRC operations organized employees' participation in the 2022 annual blood donation event held by the Lujia Town Government. Nearly 100 colleagues took part in this voluntary activity, with a total blood donation volume of 15,000ml. The annual volume of blood donated by our Chinese colleagues constituted over 50% of the gross total collected in the town.



In September, the PRC team and Yunlin Western Education Aid jointly launched a computer donation project to provide dozens of computers to students from underprivileged families living in rural areas of western China. After a journey of more than 2,266km, the computers donated by Goodbaby International finally arrived at their destinations of Chengduo County in the Yushu Tibetan Autonomous Prefecture in Qinghai and Muli County in the Liangshan Prefecture in Sichuan. A total of 43 youngsters about to enter higher education welcomed the electronic devices, which will help open vital doors to knowledge.

During the year, the Group also made donations for around 100 orphaned and disabled children living in 10 welfare homes in the PRC. With the COVID-19 pandemic triggering city lockdowns, the Group took the initiative to send supporting materials to Shanghai Children's Hospital to alleviate the supply shortage for sick children. It also organized group purchases for families in Shanghai, making more than 3,000 urgent delivery trips of maternal and infant supplies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GERMANY

In March, CYBEX in Germany donated EUR100,000 to UNICEF in response to its humanitarian call for help to children and families in war-torn Ukraine. CYBEX also carried out a series of initiatives to support Ukrainian refugees through product donations in multiple operating locations in Europe.

In December, CYBEX provided support for the third consecutive year to Bayreuther Frauenhaus, an organization that provides shelter and protection from domestic violence for women and children. Following a giving program organized in the workplace, a donation of EUR20,000 was made to contribute to those in need and make a positive community impact.

In December, CYBEX kicked off its yearly Christmas Project with Bayreuther Tafel. Concerted support from all staff resulted in 140 gifts being delivered to children in need, helping them to enjoy a joyous Christmas.

THE U.S.

In January and February, Evenflo in the U.S. donated car seats to Hannah's Treasure Chest, a nonprofit organization in Ohio dedicated to enriching the lives of children in need. We have been supporting this group from time to time and will continue to do so. Hannah's Treasure Chest is also a recipient of our annual charity golf outing.

In November, Evenflo took part in a car seat distribution event in North Port, Florida, giving away 30 car seats and 15 play yards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In November and December, Evenflo participated in the international "Giving Tuesday" event. It made gift donations to the Marine Toys for Tots Foundation, which distributes toys to children whose parents cannot afford buying gifts for Christmas. By collecting and passing on toys to this charitable organization, we were able to deliver hope and happiness to some of America's less fortunate children.

VOLUNTEER SERVICE FOR COVID-19 PREVENTION AND CONTROL

During COVID-19 outbreaks, the Group's PRC operations organized a volunteer team to assist with nucleic acid testing and sampling in the company's dormitory zone. As at 31 December 2022, 255 corporate volunteers had worked tirelessly to conduct 133 rounds of nucleic acid testing and sampling for 2,125 employees in two workers' dormitory areas, with more than 280,000 person counts. The services they performed included 'four checks and one test' (i.e. health code, travel code, test report, vaccination, and body temperature), data entry, nucleic acid sampling, number checking, order maintenance and sticker distribution.

During the year, 22 employees of the Group were awarded the "2022 Kunshan City Epidemic Prevention and Control Volunteer Service Certificate" issued by the Kunshan City Volunteer Federation for their exemplary service.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX I. LIST OF APPLICABLE POLICIES AND LAWS AND REGULATIONS

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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《關於加强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

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》) • Implementation Plan of Jiangsu Province on Improving Birth Policies to Promote the Long-Term and Balanced Population Development (《江蘇省關於優化生育政策促進人口長期均衡發展實施方案》) ***Germany:*** • German Civil Code • Germany Minimum Wage Legislation • German Social Code • German Labor Protection Act ***The U.S.:*** • Federal and state employment laws • U.S. Occupational Safety and Health Act ***Mexico:*** • Mexican Federal Labor Law

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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》)
	• Provisions on the Supervision and Administration of Occupational Health at Work Sites – Order No. 47 of the State Administration of Work Safety
	• Measures for the Supervision and Administration of Employers' Occupational Health Surveillance – Order No. 49 of the State Administration of Work Safety
	• Measures for the Declaration of Projects with Occupational Hazards – Order No. 48 of the State Administration of Work Safety
	• Measures for the Administration of Occupational Health Checks – Order No. 5 of the National Health and Family Planning Commission
	The U.S.:
	• U.S. Occupational Safety and Health Act
Prevention of Child and Forced Labor	
	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 Social Code

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 • Patent Act • Utility Model Act • Trademark Act • Design Act • Trade Secret Act • Copyright Act • IT Security Act • Product Safety Act • EU General Product Safety Directive • EU Consumer Rights Directive ***The U.S.:*** • U.S. Patent Reform Act • Consumer Product Safety Improvement Act • Federal copyright statutes • Federal patent statutes • Federal and state trademark laws • Federal and state defend trade secrets laws • Federal Motor Vehicle Safety Standard 213 (FMVSS 213) • Safety Standard for Hand-Held Infant Carriers (ASTM F2050-19) • Juvenile Products Manufacturers Association protocols

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Scopes	Applicable Policies and Laws and Regulations
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 ***Germany:*** • German Criminal Code ***The U.S.:*** • Foreign Corrupt Practices Act

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 > Rigorous Operation Underscoring Environmental Benefits
KPI A1.1	The types of emissions and respective emissions data.	Part 7 > Exhaust Gas Management and Other Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) GHG emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Part 7 > Climate Change and GHG Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Part 7 > Waste Management and Recycling
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Part 7 > Waste Management and Recycling
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	Part 7 > Waste Management and Recycling
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 2 > Statement from the Board Part 7 > Rigorous Operation Underscoring Environmental Benefits; Waste Management and Recycling
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Part 7 > Water Use and Discharge; Climate Change and GHG Emissions
KPI A2.1	Direct and/or indirect energy consumption by type in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Part 7 > Climate Change and GHG Emissions
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Part 7 > Water Use and Discharge
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 > Water Use and Discharge
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Part 7 > Climate Change and GHG Emissions
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 > Rigorous Operation Underscoring Environmental Benefits; 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 > Rigorous Operation Underscoring Environmental Benefits; 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, anti-discrimination, and other benefits and welfare.	Appendix I Part 8 > Corporate Culture and Employment Policy; Respecting and Protecting Employees' Rights and Interests
KPI B1.1	Total workforce by gender, employment type (e.g. full – or part-time), age group and geographical region.	Part 8 > Respecting and Protecting Employees' Rights and Interests
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Part 8 > Respecting and Protecting Employees' Rights and Interests
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 > Upholding 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 > Upholding Production Safety and Occupational Health
KPI B2.2	Lost days due to work injury.	Part 8 > Upholding 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 > Upholding 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 Employee Development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Part 8 > Enabling Employee Development
KPI B3.2	The average training hours completed per employee by gender and employee category.	Part 8 > Enabling Employee Development
Aspect B4: Labor 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 labor.	Appendix I Part 8 > Corporate Culture and Employment Policy
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	Part 8 > Corporate Culture and Employment Policy
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Part 8 > Corporate Culture and Employment Policy

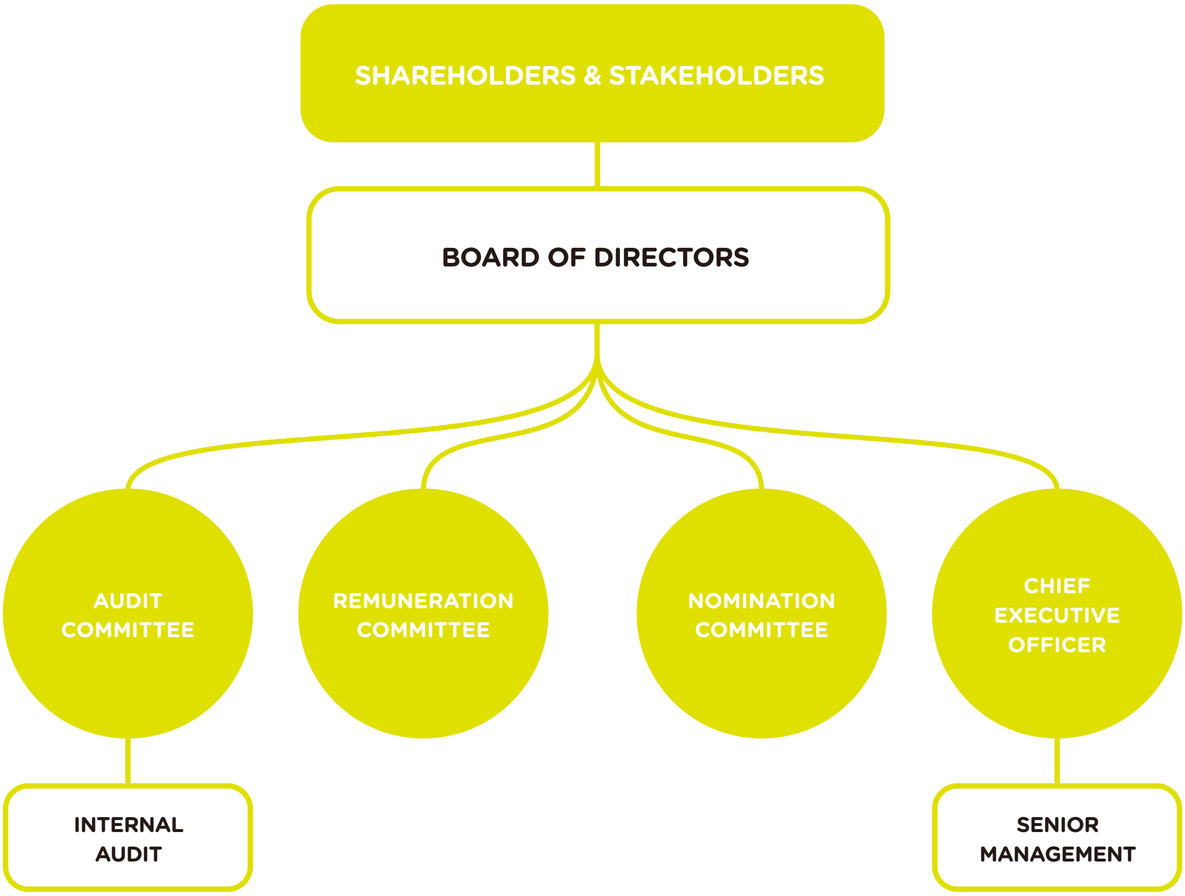
Subject Areas, Aspects, Disclosures and KPIs	Description	Sections/Declaration
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Part 4 > Supplier Management
KPI B5.1	Number of suppliers by geographical region.	Part 4 > Quality First
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 4 > Quality First; Supplier Management
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 4 > Supplier Management; Sustainable Supply Chain
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 4 > Sustainable Supply Chain
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.	Part 4 > Improved Testing Capabilities to Safeguard Product Quality Part 5: Effective Privacy Management
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Part 5 > Building Positive Relationships of Trust
KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	Part 5 > Building Positive Relationships of Trust
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Part 6 > Solid Organizational Architecture Underpinning Innovation
KPI B6.4	Description of quality assurance process and recall procedures.	Part 4 > Improved Testing Capabilities to Safeguard Product Quality
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Part 5 > Building Positive Relationships of Trust
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 2 > Business Ethics and Corporate Conduct
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 2 > Business Ethics and Corporate Conduct
KPI B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	Part 2 > Business Ethics and Corporate Conduct
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Part 2 > Business Ethics and Corporate Conduct
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 9 > Contributing to Society and Local Communities
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	Part 9 > Contributing to Society and Local Communities
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Part 9 > Contributing to Society and 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 2022. 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 Company to safeguard the interests of shareholders of the Company ("Shareholder(s)") and formulate its business strategies and policies as well as to enhance corporate value and to enhance transparency and accountability.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

CORPORATE GOVERNANCE REPORT

– satisfactory and sustainable returns to Shareholders;

– that the interests of those who deal with the Company are safeguarded;

– that overall business risk is understood and managed appropriately;

– the delivery of high-quality products and services to the satisfaction of customers; and

– that high standards of ethics are maintained.

The Board is of the view that throughout the year ended 31 December 2022, 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 Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsible for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

BOARD COMPOSITION

During the year, the Board 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. LIU Tongyou *(current Chief Executive Officer)*
Mr. Martin POS *(former Chief Executive Officer until 21 March 2023)*
Mr. XIA Xinyue
Mr. Michael Nan QU

Non-executive Directors

Ms. FU Jingqiu
Mr. HO Kwok Yin, Eric

Independent non-executive Directors

Mr. Iain Ferguson BRUCE *(retired on 23 May 2022)*
Mr. SHI Xiaoguang *(member of audit, nomination and remuneration committees)*
Ms. CHIANG Yun *(Chairlady of audit, nomination and remuneration committees)*
Mr. JIN Peng
Mr. So Tak Young *(member of audit, nomination and remuneration committees) (appointed on 23 May 2022)*

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 27 to 36 of this annual report.

Ms. FU Jingqiu, non-executive Director, is the spouse of Mr. SONG Zhenghuan, the Chairman and executive Director of the Company. Save as disclosed above, there is no relationships (including financial, business, family or other material/relevant relationship(s)) between the Board members and in particular, between the Chairman and the Chief Executive Officer.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year 2022, the positions of Chairman of the Company ("Chairman") and Chief Executive Officer of the Company ("CEO") were held by Mr. SONG Zhenghuan and Mr. Martin POS respectively. Since 21 March 2023, Mr. Liu Tongyou succeeded the role of CEO after Mr. Martin POS' stepping down from such role. 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.

NON-EXECUTIVE DIRECTORS

Non-executive Directors serve the relevant function of bringing independent judgment on the development and performance, etc. of the Group. They have the same duties of care and skill and fiduciary duties as executive Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2022, 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.

POLICY ON INDEPENDENCE OF DIRECTORS

The Board has mechanisms to ensure independent views and input are available to the Board, and during the year ended 31 December 2022, such mechanisms had been codified into a Policy on Independence of Directors, which provided, among others:

- Criteria for evaluating the independence of non-executive Directors (or a person proposed to be appointed as an independent non-executive Director), which are no less than the standards set under Rule 3.13 of the Listing Rules which the Stock Exchange would normally take into account when accessing the independence of a non-executive director; and
- Reiterating the disclosure requirements when an independent non-executive Director who has served for more than nine years is proposed to be re-elected at a forthcoming annual general meeting of the Company.

Upon a review on the said Policy on Independence of Directors, the Board was the view that the mechanisms therein remained effective and has been effectively implemented.

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 2022. 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. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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 of the Company ("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 2022, 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 2022 is set out in the table below:

Name of Directors	Hours of Training in 2022
SONG Zhenghuan	17
LIU Tongyou	17
Martin POS	16
XIA Xinyue	16
Michael Nan QU	16
FU Jingqiu	17
HO Kwok Yin, Eric	16
SHI Xiaoguang	17
CHIANG Yun	16
JIN Peng	16
So Tak Young (appointed on 23 May 2022)	16

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, subject to renewal after the expiry of the then current term.

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 ("Articles of Association"). In accordance with the 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 reelection 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 Articles of Association. The nomination committee of the Company ("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.

CORPORATE GOVERNANCE REPORT

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 2022 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 2022 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

COMPANY SECRETARY

Ms. Ho Wing Tsz, Wendy has been appointed as the Company's company secretary since 5 September 2022*. Ms. Ho Wing Tsz, Wendy 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 36 of this annual report. For the year ended 31 December 2022, the company secretary has undertaken not less than 15 hours of the relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Ms. WANG Qi, Group Legal & Compliance 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.

* On 16 June 2022, Ms. Ho Siu Pik ("Ms. Ho") resigned as the company secretary of the Company. Immediately after the resignation of Ms. Ho, Ms. Chow Yuk Yin, Ivy ("Ms. Chow") was appointed as the company secretary of the Company. On 5 September 2022, Ms. Chow resigned as the company secretary of the Company. Immediately after the resignation of Ms. Chow, Ms. Ho Wing Tsz, Wendy was appointed as the company secretary of the Company with effect from 5 September 2022.

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 2 to 4 of this annual report.

AUDIT COMMITTEE

During the year ended 31 December 2022, the audit committee of the Company ("Audit Committee") consists of the following independent non-executive Directors, namely Mr. Iain Ferguson BRUCE (retired on 23 May 2022), Mr. SHI Xiaoguang, Ms. CHIANG Yun and Mr. So Tak Young (appointed on 23 May 2022). Ms. CHIANG Yun is the Chairlady 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 21 March 2022 and 20 August 2022 respectively, to review the annual financial results and report for the year ended 31 December 2021, and interim financial results and report for the six months ended 30 June 2022 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 2022, the Audit Committee also met the external auditors twice without the presence of the executive Directors.

REMUNERATION COMMITTEE

During the year ended 31 December 2022, the remuneration committee of the Company ("Remuneration Committee") consists of the following independent non-executive Directors, namely Mr. Iain Ferguson BRUCE (retired on 23 May 2022), Mr. SHI Xiaoguang and Ms. CHIANG Yun and Mr. So Tak Young (appointed on 23 May 2022). Ms. CHIANG Yun is the Chairlady 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 Company's remuneration policy is to ensure that the remuneration offered to employees, including Directors and senior management, is based on skill, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages of executive Directors are also determined with reference to the Company's performance and profitability, the prevailing market conditions and the performance or contribution of each executive Director. The remuneration for the executive Directors comprises basic salary, pensions and discretionary bonus. Executive Directors may receive options to be granted under the Company's share option scheme. The remuneration policy for non-executive Directors and independent non-executive Directors is to ensure that non-executive Directors and independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs, including their participation in Board committees. The remuneration for the non-executive Directors and independent non-executive Directors mainly comprises Director's fee which is determined with reference to their duties and responsibilities by the Board. Individual Directors and senior management have not been involved in deciding their own remuneration.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee held a meeting on 21 March 2022 to review and make recommendation to the Board on the remuneration policy and the remuneration packages of executive Directors and senior management for 2022 as well as other related matters. The Remuneration Committee also made recommendations to the Board on the terms of service agreement.

The Remuneration Committee also made recommendations to the Board on the terms of letter of appointment of the new independent non-executive Director appointed during the year.

NOMINATION COMMITTEE

During the year ended 31 December 2022, the Nomination Committee consists of the following independent non-executive Directors, namely Mr. Iain Ferguson BRUCE (retired on 23 May 2022), Mr. SHI Xiaoguang and Ms. CHIANG Yun and Mr. SO Tak Young (appointed on 23 May 2022). Ms. CHIANG Yun is the chairlady 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 meetings on 21 March 2022 and 23 May 2022 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; and the appointment of the independent non-executive Director. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

GENDER DIVERSITY

The Company values gender diversity across all levels of the Group. As at 31 December 2022, one third of the Group's senior management are female and the Board also comprises male and female Directors. For details of the Group's Directors and senior management, please refer to pages 27 to 36 in section headed "Directors & Senior Management" in this report. Details on the gender ratio of the Group together with relevant data can be found on page 92 in Environmental, Social and Governance Report.

Taking into account the Group's business model and specific needs from time to time, and that the Board comprises male and female members, the gender diversity target of the Board has generally been achieved and adhered to. The Board is mindful of the measurable objectives in the Board Diversity Policy which include gender diversity for assessing potential candidates of Board members, and will continue to ensure any successors to the Board shall follow the gender diversity as well as other measurable objectives in the Board Diversity Policy. Similar considerations shall also be made for assessing potential candidates of the senior management team from time to time.

As at 31 December 2022, the number of male and female in the workforce (including the Directors and senior management) is approximately 3,120 and 4,273 respectively.

As such, the Company's workforce has achieved gender diversity between males and females. The Company shall continue to take into account diversity perspectives including gender diversity in its hiring of employees and assessment of potential successors to the Board and the senior management team from time to time.

DIRECTOR NOMINATION POLICY

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

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

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

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

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

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

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

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.

CORPORATE GOVERNANCE REPORT

The Nomination Committee has primary responsibility for identifying individuals suitably qualified to become members of the Board and selecting, or making recommendations to the Board on the selection of, individuals nominated for directorships. In assessing potential candidates for the Board, the Nomination Committee will consider the diversity perspectives in accordance with the board diversity policy adopted by the Company, 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 2022. 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, competency of employees, training programs and budget of the Company's accounting, internal audit and financial reporting functions;
- to review on the compliance of the Mode Code and the Employee Code of Conduct; 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 2022 has covered the aforesaid matters.

THE COMPANY'S CULTURE, PURPOSE, VALUES AND STRATEGY

The Board has established its vision, mission, values and strategy and is satisfied that these are aligned with the Company's culture. For details please refer to the section headed "Environmental, Social and Governance Report – Part 2: ESG Strategy and Oversight – Group Overview" in this annual report.

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.

Regular Board meetings were held involving active participation, either in person or through electronic means of communication, of a majority of Directors. 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 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 2022 is set out in the table below:

	Attendance/Number of Meetings in 2022				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meeting**
Executive Directors					
SONG Zhenghuan	4/5	N/A	N/A	N/A	1/1
LIU Tongyou	5/5	N/A	N/A	N/A	1/1
Martin POS	2/5	N/A	N/A	N/A	0/1
XIA Xinyue	5/5	N/A	N/A	N/A	0/1
Michael Nan QU	4/5	N/A	N/A	N/A	0/1
Non-executive Directors					
FU Jingqiu	4/5	N/A	N/A	N/A	1/1
HO Kwok Yin, Eric	5/5	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
SHI Xiaoguang	5/5	2/2	2/2	1/1	1/1
CHIANG Yun	4/5	2/2	2/2	1/1	1/1
JIN Peng	1/5	N/A	N/A	N/A	0/1
SO Tak Young *(appointed on 23 May 2022) (Note)*	4/4	1/1	1/1	0/0	0/1

Note: The denominators of attendance of Mr. SO Tak Young at board meetings, board committee meetings and general meetings refer to the total number of those meetings held in 2022 after his appointment on 23 May 2022.

Apart from regular Board meetings, the Chairman also held a meeting solely with the independent non-executive Directors on 22 March 2022.

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 2022 with the support of the accounting and finance team. 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 156 to 160.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

The Company has taken the following assessments annually to assess 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. chief executive officer and chief financial officer 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 2022, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Company's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, employees qualifications and experience, training programs and budget of the accounting, financial reporting and internal audit functions as well as those relating to the Company's ESG performance and reporting.

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 2022 and was satisfied with the effectiveness of the function.

CORPORATE GOVERNANCE REPORT

CODE OF BUSINESS CONDUCT

We strive to be a company that embodies high ethical standards and we take steps to bolster strong business ethics in our daily operations. All employees of the Company shall comply with the Code of Business Conduct Policy. We assess the Code of Business Conduct Policy on a regular basis to ensure that it complies with the latest legal and regulatory requirements, reflects global best practices and fosters proper governance on the business activities. The Company has updated the Code of Business Conduct Policy in year 2022. It provides the guiding principles for all employees to do what is right, behave with integrity, honesty and mutual respect, treat people fairly without discrimination, obey all applicable laws, and handle matters such as inside information and share trading, business opportunities, gift, entertainment and other hospitality, environment, health and safety with a diligent and appropriate approach.

WHISTLE-BLOWING POLICY AND ANTI-CORRUPTION POLICY

The Company has executed a robust whistle-blowing mechanism to encourage employees and those who deal with the Company to report with confidence on any wrongdoing which they suspect or believe may be occurring within or related to the Company without the risk of unfair treatment. In order to further strengthen the whistle-blowing mechanism and comply with the latest requirements of the Stock Exchange, the Company has updated the Whistle-blowing Policy in year 2022. 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. The Whistle-blowing Policy specifies reporting channels, permits anonymous reports, and protects the whistleblower from any harm or unfair treatment. The whistle-blowing mechanism has formulated standard guidelines and procedures to cover three main areas, i.e. whistle-blowing channels, case handling and investigation, reporting and follow up. The main objectives of the whistle-blowing mechanism are to ensure adequate whistle-blowing reporting channels are in place and communicated to stakeholders, protection of whistle-blower and evidence, proper execution of investigation procedures, and appropriate implementation of action plans for the reported cases and more importantly, the follow up actions to identify and remedy any relevant potential internal control deficiencies across the Company. Whistle-blowing cases, investigation results, actions taken and proposed internal control improvements shall ultimately be reported to the Audit Committee.

The Company has also in place the Anti-Corruption Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. Employees can also make anonymous reports to the internal audit function, which is responsible for investigating the reported incidents and taking appropriate measures. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organizes anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

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 2022 amounted to HK$9,182,000 and HK$221,000 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 2022 is set out below:

Service Category	Fees Paid/ Payable (HK$)
Audit Services	9,182,000
Non-audit Services	221,000
• Transfer pricing documentation	221,000

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, 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 2023 annual general meeting ("AGM") of the Company will be held on 22 May 2023. The notice of AGM was sent to the shareholders at least 21 days before the AGM.

CORPORATE GOVERNANCE REPORT

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 Articles of Association is also available on the Company's website and the Stock Exchange's website. The Board proposes to amend the Company's existing memorandum and articles of association by adopting the second amended and restated memorandum and articles of association at the forthcoming AGM. For further details, please refer to the section headed "Report of the Board of Directors – Proposed Adoption of the Amended and Restated Memorandum and Articles" in this annual report.

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 2022 and, including taking into account the up-to-date information about the Company provided on various platforms such as the Company's website, the Company's financial reports published, the conducting of the Company's general meetings as well as announcements and other disclosures published by the Company during the year ended 31 December 2022, the Company 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.

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.

AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

During the year under review, the Company has not made any changes to the memorandum and articles of association of the Company (the "Memorandum and Articles"). The Company will amend its Memorandum and Articles to update with the latest changes in the Listing Rules at the forthcoming annual general meeting. Details of the amendments are set out in the circular dated 20 April 2023 to the shareholders.

CORPORATE GOVERNANCE REPORT

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 and all applicable laws (including the Cayman Companies Law), rules and regulations, when making 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 Articles of Association and all applicable laws and regulations and taking into consideration factors set out below:

(1) financial results;

(2) cash flow situation;

(3) business conditions and strategies;

(4) future operations and earnings;

(5) capital requirements and expenditure plans;

(6) interests of shareholders;

(7) taxation consideration;

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

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

Report of the Board of Directors

REPORT OF THE BOARD OF DIRECTORS

The Board is pleased to present their report and the audited financial statements for the year ended 31 December 2022 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 2022 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 137 of this annual report. An analysis of the Group's performance during the year ended 31 December 2022 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 115 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 161 and page 162 respectively. The financial position as at 31 December 2022 of the Group are set out in the Consolidated Statement of Financial Position on pages 163 to 164. The cash flow of the Group during the year is set out in the Consolidated Statement of Cash Flows on pages 166 to 167.

SHARE CAPITAL

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

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: nil).

CLOSURE OF REGISTER OF MEMBERS

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

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

• Latest time to lodge transfers documents for registration	4:30 p.m. on 16 May 2023 (Tuesday)
• Closure of register of members	17 May 2023 (Wednesday) to 22 May 2023 (Monday), both days inclusive

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

RESERVE

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

As at 31 December 2022, 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 11.8%
- five largest customers in aggregate 34.8%

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$1,584,744.

DIRECTORS

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

Executive Directors

Mr. SONG Zhenghuan
Mr. LIU Tongyou
Mr. Martin POS
Mr. XIA Xinyue
Mr. Michael Nan QU

Non-executive Directors

Ms. FU Jingqiu
Mr. HO Kwok Yin, Eric

Independent Non-executive Directors

Ms. CHIANG Yun
Mr. SHI Xiaoguang
Mr. JIN Peng
Mr. SO Tak Young

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. Martin POS, Mr. LIU Tongyou, Mr. JIN Peng and Mr. SO Tak Young will retire in the forthcoming annual general meeting. All of the above Directors, being eligible, will offer themselves for re-election at 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' OR SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

Other than those transactions disclosed in note 38 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 substantial Shareholder or any entity connected with a Director or substantial Shareholder was materially 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 2022, 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 2022.

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 at 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 at 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.

The Company may continue to make option grants using the existing scheme mandate under the latest amended Chapter 17 (the "amended Chapter 17") of the Listing Rules (which took effect on 1 January 2023), but any future grants will only be made to participants described in Rule 17.03A of the Listing Rules. The Company will comply with the amended Chapter 17 on or before the refreshment or expiry of the existing scheme mandate or adoption of any new share option scheme, whichever occurs first.

During the year under review, the Company granted 675,000 share options on 16 June 2022 under the 2020 Share Option Scheme.

Under the 2010 Share Option Scheme, 2,810,000 share options were forfeited and none of the share options were exercised during 2022.

Under the 2020 Share Option Scheme, 1,662,867 share options were forfeited and none of the share options were exercised during 2022.

As at 31 December 2022, 132,301,300 share options were outstanding under the 2010 Share Option Scheme and the 2020 Share Option Scheme in total (31 December 2021: 136,099,167).

REPORT OF THE BOARD OF DIRECTORS

Movements of the share options granted during the year ended 31 December 2022 were as follows:

			Number of share options								
Name of Director/ former Director/ Associate	Date of grant	Exercise Price (HK$)	Outstanding as at 1 January 2022	Granted during this year	Exercised during this year	Weighted average closing price immediately before the date of exercise (HK$)	Cancelled/Lapsed during this year	Outstanding as at 31 December 2022	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. 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. 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]	

Name of Director/ former Director/ Associate	Date of grant	Exercise Price	Number of share options								Closing price of securities immediately before the date of grant
			Outstanding as at 1 January 2022	Granted during this year	Exercised during this year	Weighted average closing price immediately before the date of exercise	Cancelled/Lapsed during this year	Outstanding as at 31 December 2022	Percentage of total issued share capital[1]	Exercise period	
		(HK$)				(HK$)					(HK$)
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]	
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	0.003%	23 May 2022 to 22 May 2029[8]	0.92
			65,100	–	–	N/A	–	65,100	0.004%	23 May 2023 to 22 May 2029[8]	
			108,500	–	–	N/A	–	108,500	0.007%	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. 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	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/ former Director/ Associate	Date of grant	Exercise Price (HK$)	Number of share options: Outstanding as at 1 January 2022	Granted during this year	Exercised during this year	Weighted average closing price immediately before the date of exercise (HK$)	Cancelled/Lapsed during this year	Outstanding as at 31 December 2022	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)	
Mr. Iain Ferguson Bruce *(former Director)*(11)	29 September 2014	3.58	800,000	–	–	N/A	800,000	0	N/A	Refer to note(11)	3.49
	19 June 2020	0.96	19,200	–	–	N/A	19,200	0	N/A	Refer to note(11)	0.92
			28,800	–	–	N/A	28,800	0	N/A	Refer to note(11)	
			48,000	–	–	N/A	48,000	0	N/A	Refer to note(11)	
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)	

Name of Director/ former Director/ Associate	Date of grant	Exercise Price	Number of share options								Closing price of securities immediately before the date of grant
			Outstanding as at 1 January 2022	Granted during this year	Exercised during this year	Weighted average closing price immediately before the date of exercise	Cancelled/Lapsed during this year	Outstanding as at 31 December 2022	Percentage of total issued share capital[1]	Exercise period	
		(HK$)				(HK$)					(HK$)
Mr. Martin Patrick Pos *(associate of Mr. Martin Pos)*	11 December 2020	1.01	62,000	–	–	N/A	–	62,000	0.004%	11 December 2023 to 10 December 2030[9]	1.00
			93,000	–	–	N/A	–	93,000	0.006%	11 December 2024 to 10 December 2030[9]	
			155,000	–	–	N/A	–	155,000	0.009%	11 December 2025 to 10 December 2030[9]	
Total number held by Directors	29 September 2014	3.58	11,780,000	–	–	N/A	–	11,780,000	0.706%	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	12,254,000	–	–	N/A	–	12,254,000	0.735%	Refer to note[8]	0.92
Total number held by former Director[11]	29 September 2014	3.58	800,000	–	–	N/A	800,000	0	N/A	Refer to note[11]	3.49
	19 June 2020	0.96	19,200	–	–	N/A	19,200	0	N/A	Refer to note[11]	0.92
			28,800	–	–	N/A	28,800	0	N/A	Refer to note[11]	
			48,000	–	–	N/A	48,000	0	N/A	Refer to note[11]	
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	9,800,000	–	–	N/A	–	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	29,800,000	–	–	N/A	2,010,000	27,790,000	1.666%	23 May 2019 to 22 May 2029[7]	1.94
	19 June 2020	0.96	12,147,167	–	–	N/A	1,256,867	10,890,300	0.653%	Refer to note[8]	0.92
	11 December 2020	1.01	3,992,000	–	–	N/A	310,000	3,682,000	0.221%	Refer to note[9]	1.00
	16 June 2022	1.042	–	675,000	–	N/A	–	675,000	0.040%	Refer to note[10]	1.03

REPORT OF THE BOARD OF DIRECTORS

Fair values of the share options granted at the date of grant were as follows:

For director/former director/associate

Date of grant	Exercise period	Fair value HK$ per share[12]
29 September 2014	29 September 2017 to 28 September 2024[2]	1.11
29 September 2014	29 September 2018 to 28 September 2024[2]	1.17
29 September 2014	29 September 2019 to 28 September 2024[2]	1.23
27 March 2018	27 September 2020 to 27 March 2028[5]	1.66
27 March 2018	27 September 2021 to 27 March 2028[5]	1.76
27 March 2018	27 September 2022 to 27 March 2028[5]	1.84
23 May 2019	23 May 2022 to 22 May 2029[7]	0.29
23 May 2019	23 May 2023 to 22 May 2029[7]	0.31
23 May 2019	23 May 2024 to 22 May 2029[7]	0.33
19 June 2020	28 August 2020 to 27 August 2027[8]	0.27
19 June 2020	28 August 2021 to 27 August 2027[8]	0.31
19 June 2020	28 August 2022 to 27 August 2027[8]	0.35
19 June 2020	27 September 2020 to 27 March 2028[8]	0.28
19 June 2020	27 September 2021 to 27 March 2028[8]	0.32
19 June 2020	27 September 2022 to 27 March 2028[8]	0.35
19 June 2020	28 May 2021 to 27 May 2028[8]	0.30
19 June 2020	28 May 2022 to 27 May 2028[8]	0.34
19 June 2020	28 May 2023 to 27 May 2028[8]	0.37
19 June 2020	23 May 2022 to 22 May 2029[8]	0.35
19 June 2020	23 May 2023 to 22 May 2029[8]	0.38
19 June 2020	23 May 2024 to 22 May 2029[8]	0.41
11 December 2020	11 December 2023 to 10 December 2030[9]	0.40
11 December 2020	11 December 2024 to 10 December 2030[9]	0.43
11 December 2020	11 December 2025 to 10 December 2030[9]	0.45

For Employees:

Date of grant	Exercise period	Fair value HK$ per share[12]
29 September 2014	29 September 2017 to 28 September 2024[3]	1.06[13]
29 September 2014	29 September 2018 to 28 September 2024[3]	1.14[13]
29 September 2014	29 September 2019 to 28 September 2024[3]	1.20[13]
29 September 2014	29 September 2017 to 28 September 2024[3]	1.09[14]
29 September 2014	29 September 2018 to 28 September 2024[3]	1.16[14]
29 September 2014	29 September 2019 to 28 September 2024[3]	1.22[14]
7 October 2015	7 October 2018 to 6 October 2025[4]	1.22
7 October 2015	7 October 2019 to 6 October 2025[4]	1.30
7 October 2015	7 October 2020 to 6 October 2025[4]	1.37
27 March 2018	27 September 2020 to 27 March 2028[5]	1.42
27 March 2018	27 September 2021 to 27 March 2028[5]	1.53
27 March 2018	27 September 2022 to 27 March 2028[5]	1.62
28 May 2018	28 May 2021 to 27 May 2028[6]	1.48
28 May 2018	28 May 2022 to 27 May 2028[6]	1.59
28 May 2018	28 May 2023 to 27 May 2028[6]	1.68
23 May 2019	23 May 2022 to 22 May 2029[7]	0.25
23 May 2019	23 May 2023 to 22 May 2029[7]	0.28
23 May 2019	23 May 2024 to 22 May 2029[7]	0.31
19 June 2020	28 August 2020 to 27 August 2027[8]	0.27
19 June 2020	28 August 2021 to 27 August 2027[8]	0.31
19 June 2020	28 August 2022 to 27 August 2027[8]	0.35
19 June 2020	27 September 2020 to 27 March 2028[8]	0.28
19 June 2020	27 September 2021 to 27 March 2028[8]	0.32
19 June 2020	27 September 2022 to 27 March 2028[8]	0.35
19 June 2020	28 May 2021 to 27 May 2028[8]	0.30
19 June 2020	28 May 2022 to 27 May 2028[8]	0.34
19 June 2020	28 May 2023 to 27 May 2028[8]	0.37
19 June 2020	23 May 2022 to 22 May 2029[8]	0.35
19 June 2020	23 May 2023 to 22 May 2029[8]	0.38
19 June 2020	23 May 2024 to 22 May 2029[8]	0.41
11 December 2020	11 December 2023 to 10 December 2030[9]	0.40
11 December 2020	11 December 2024 to 10 December 2030[9]	0.43
11 December 2020	11 December 2025 to 10 December 2030[9]	0.45
16 June 2022	16 June 2025 to 15 June 2032[10]	0.45
16 June 2022	16 June 2026 to 15 June 2032[10]	0.49
16 June 2022	16 June 2027 to 15 June 2032[10]	0.52

Notes:

(1) The percentage is calculated based on the total number of 1,668,031,166 shares in issue as at 31 December 2022.

(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.

(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.

REPORT OF THE BOARD OF DIRECTORS

(8) Among the 23,764,300 share options, the vesting schedule and exercise period are as follows:

(i) 93,333 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) 2,107,200 share options will be vested on 27 September 2020 and exercisable until 27 March 2028;

(v) 3,160,800 share options will be vested on 27 September 2021 and exercisable until 27 March 2028;

(vi) 5,268,000 share options will be vested on 27 September 2022 and exercisable until 27 March 2028;

(vii) 180,000 share options will be vested on 28 May 2021 and exercisable until 27 May 2028;

(viii) 270,000 share options will be vested on 28 May 2022 and exercisable until 27 May 2028;

(ix) 430,000 share options will be vested on 28 May 2023 and exercisable until 27 May 2028;

(x) 2,483,100 share options will be vested on 23 May 2022 and exercisable until 22 May 2029;

(xi) 3,594,450 share options will be vested on 23 May 2023 and exercisable until 22 May 2029; and

(xii) 5,990,750 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.

(10) The share options are exercisable within a period of 10 years from 16 June 2022 and subject to the following vesting schedule and performance review:

(i) 20% of the share options vested on 16 June 2025;

(ii) another 30% of the share options vested on 16 June 2026; and

(iii) the remaining share options vested on 16 June 2027.

(11) Mr. Iain Ferguson Bruce, a former independent non-executive Director, retired and ceased to be a Director upon the conclusion of the annual general meeting held on 23 May 2022 (the "date of cessation"). Accordingly, under the terms of the 2010 Share Option Scheme and the 2020 Share Option Scheme, the share options granted to him by the Company and vested before his retirement had been automatically lapsed and become not exercisable as they were not exercised within three months from the date of cessation. Share options granted to him by the Company but not yet vested before his retirement, had automatically lapsed and become not exercisable immediately from the date of cessation.

(12) The fair value of the share options is determined in accordance with HKFRS 2 by reference to the cost of purchase of the share options, or the fair value at grant date, taking into account all non-vesting conditions associated with the grant on grant date. No adjustment is required for expected dividends since the employees are entitled to receive dividends paid during the vesting period. Details of the accounting policy adopted are set out in Note 2.4 to the consolidated Financial Statements.

During 2022, 675,000 share options, with a total fair value of HK$337,500 were granted to two employees.

(13) The share options were granted for employees of CYBEX.

(14) The share options were granted for employees of gb.

As at 1 January 2022 and 31 December 2022, the total number of options available for grant under the 2020 Share Option Scheme was 116,586,316 and 11,723,316, respectively.

As at 31 December 2022, the number of shares that may be issued in respect of the options granted under the 2010 Share Option Scheme and the 2020 Share Option Scheme in total divided by the weighted average number of ordinary shares of the Company in issue for the year ended 31 December 2022 was 7.93%.

As at 31 December 2022, the total number of shares available for issue under the 2020 Share Option Scheme was 11,723,316 shares, which represented 7.03% 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.

As at the date of this Annual Report, the remaining life of the 2020 Share Option Scheme is approximately 7 years and 2 months.

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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Schemes as set out in note 32 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 2022, 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. Liu Tongyou ("Mr. Liu") (Note 3)	Beneficial owner/ Interest of controlled corporation	39,710,573 (L)	2.38%
Mr. Martin Pos	Beneficial owner	73,747,293 (L)	4.42%
Mr. Xia Xinyue	Beneficial owner	12,400,000 (L)	0.74%
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. 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. Liu Tongyou	10,653,000
Mr. Martin Pos	24,100,000
Mr. Xia Xinyue	12,400,000
Mr. Michael Nan Qu	4,700,000
Ms. Fu Jingqiu	2,207,000
Mr. Ho Kwok Yin, Eric	1,096,000
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.

(6) Mr. Iain Ferguson Bruce, a former independent non-executive Director, retired and ceased to be a Director upon the conclusion of the annual general meeting held on 23 May 2022 (the "date of cessation"). Accordingly, under the terms of the 2010 Share Option Scheme and the 2020 Share Option Scheme, the share options granted to him by the Company and vested before his retirement had been automatically lapsed and become not exercisable as they were not exercised within three months from the date of cessation. Share options granted to him by the Company but not yet vested before his retirement, had automatically lapsed and become not exercisable immediately from the date of cessation. Please refer to section headed "Employees and Remuneration Policy" above for further details.

Save as disclosed above, as at 31 December 2022, 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 2022, 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 Divisions 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 53.44% by Cayey Enterprises Limited, which in turn is, as at 31 December 2022, 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.

Save as disclosed above, as at 31 December 2022, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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 2022 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 2022.

CONNECTED TRANSACTIONS

The Group's related parties transactions marked with "#" for the year ended 31 December 2022 set out in note 38 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

SUPPLY AGREEMENTS WITH GOODBABY CHINA HOLDINGS LIMITED (THE "GCHL" OR "CAGB")

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.

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 2022 was RMB957,000 (approximately HK$1,112,000). 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.

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

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.

REPORT OF THE BOARD OF DIRECTORS

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.

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 2022, 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.

PROPOSED ADOPTION OF THE AMENDED AND RESTATED MEMORANDUM AND ARTICLES

The Board proposes to amend the existing Memorandum and Articles of the Company by adopting the second amended and restated memorandum and articles of association (the "Amended and Restated Memorandum and Articles"), in order to (a) bring the existing Memorandum and Articles to conform with the core shareholder protection standards set out in Appendix 3 to the Listing Rules; (b) provide flexibility to the Company in relation to the conduct of general meetings by allowing general meetings of the Company to be held as virtual meetings or hybrid meetings where Shareholders may participate by electronic communication facilities in substitution for or in addition to physical attendance at one or more locations; and (c) incorporate certain general updating and housekeeping amendments (the "Proposed Amendments").

The Proposed Amendments and adoption of the Amended and Restated Memorandum and Articles are subject to the approval of the Shareholders by way of passing a special resolution to be proposed at the AGM. A circular of the AGM containing, among other things, details of the Proposed Amendments and adoption of the Amended and Restated Memorandum and Articles, together with a notice of the AGM, will be despatched to the Shareholders in due course.

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 41 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 2022.

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.

REPORT OF THE BOARD OF DIRECTORS

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

Changes in Directors' biographical details since the date of the 2022 interim report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51(B)(1) of the Listing Rules, are set out below.

With effect from 21 March 2023:

- Mr. Martin POS, an executive Director, has stepped down from his role as the CEO of the Company; and

- Mr. Liu Tongyou, an executive Director, has been appointed as the CEO of the Company.

On 17 February 2023, the Board approved the renewal of appointment letters of the Directors as follows:

- Mr. Martin POS as an executive Director for a term of three years commencing from 18 March 2023;

- Mr. Liu Tongyou as an executive Director for a term of three years commencing from 21 February 2023;

- Mr. Michael Nan Qu as an executive Director for a term of three years commencing from 18 March 2023;

- Ms. Chiang Yun as an independent non-executive Director for a term of three years commencing from 23 May 2023; and

- Mr. Jin Peng as an independent non-executive Director for a term of three years commencing from 21 February 2023.

EVENT AFTER THE REPORTING PERIOD

Details of the event after the reporting period of the Group are set out in note 43 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 284 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.

EQUITY-LINKED AGREEMENTS

Saved for the share option, the Company had not entered into any equity-linked agreements during the year ended 31 December 2022.

SUFFICIENT PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, as at the date of this annual report, the Company has maintained sufficient public float of not less than 25% of the Company's issued shares as required by the Listing Rules.

AUDITORS

The financial statements of the Company for the year ended 31 December 2022 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

28 March 2023

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 161 to 283, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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$2,631 million and HK$1,638 million as at 31 December 2022, which represented 22% and 14% 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 the cost of equity and the 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 2022, the provisions for product liabilities amounted to HK$59 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 judgements 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 the 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 obtaining an understanding of 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
28 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2022

	Notes	2022	2021
		(HK$'000)	
Revenue	5	8,292,152	9,692,137
Cost of sales		(4,936,271)	(5,696,909)
Gross profit		3,355,881	3,995,228
Other income and gains	5	165,429	80,800
Selling and distribution expenses		(2,072,449)	(2,476,241)
Administrative expenses		(1,345,590)	(1,426,458)
Other expenses		(2,437)	(7,266)
Finance income	6	42,971	35,074
Finance costs	7	(137,906)	(90,594)
Share of profits and losses of:			
Joint ventures		(4,621)	1,277
An associate		(85)	(8)
PROFIT BEFORE TAX	8	**1,193**	**111,812**
Income tax credit	11	38,935	15,749
PROFIT FOR THE YEAR		**40,128**	**127,561**
Attributable to:			
Owners of the parent		33,487	123,817
Non-controlling interests		6,641	3,744
		40,128	127,561
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	13		
Basic			
For profit for the year (HK$)		0.02	0.07
Diluted			
For profit for the year (HK$)		0.02	0.07

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2022

	2022	2021
	(HK$'000)	
PROFIT FOR THE YEAR	**40,128**	**127,561**
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges		
Effective portion of changes in fair value of hedging instruments arising during the year	(56,530)	24,044
Reclassification adjustments for gains/(losses) included in the consolidated statement of profit or loss	30,066	(12,807)
Income tax effect	3,666	(1,948)
	(22,798)	9,289
Exchange differences on translation of foreign operations	(572,752)	143,048
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	(595,550)	152,337
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Actuarial gains of defined benefit plans	384	489
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	384	489
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(595,166)**	**152,826**
TOTAL COMPREHENSIVE (LOSS)/INCOME	**(555,038)**	**280,387**
Attributable to:		
Owners of the parent	(559,460)	275,959
Non-controlling interests	4,422	4,428
	(555,038)	**280,387**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

YEAR ENDED 31 DECEMBER 2022

	Notes	31 December 2022	31 December 2021
		(HK$'000)	
NON-CURRENT ASSETS			
Property, plant and equipment	14	986,099	1,031,631
Right-of-use assets	15(a)	330,552	336,549
Goodwill	16	2,631,379	2,812,866
Other intangible assets	17	2,086,571	2,281,555
Investments in joint ventures		9,497	6,513
Investment in an associate		4,396	–
Deferred tax assets	29	67,413	85,109
Pledged deposits	23	829,430	1,152,021
Time deposits	23	302,258	–
Other long-term assets	18	11,197	11,294
Total non-current assets		7,258,792	7,717,538
CURRENT ASSETS			
Inventories	19	1,902,009	2,402,801
Trade receivables	20	997,328	1,247,410
Prepayments and other receivables	21	572,204	641,951
Due from related parties	38	2,503	6,775
Financial assets at fair value through profit or loss	22	28,519	17,824
Cash and cash equivalents	23	921,961	1,087,413
Pledged deposits	23	16,018	9,454
Derivative financial instruments	24	15,361	40,546
Total current assets		4,455,903	5,454,174
CURRENT LIABILITIES			
Trade and bills payables	25	1,169,653	1,636,633
Other payables and accruals	26	784,438	905,027
Income tax payable		32,019	39,483
Provision	27	72,167	99,003
Interest-bearing bank loans and other borrowings	28	1,181,953	1,223,104
Lease liabilities	15(b)	102,936	98,979
Derivative financial instruments	24	44,098	4,260
Due to related parties	38	730	604
Defined benefit plan liabilities		359	337
Total current liabilities		3,388,353	4,007,430
NET CURRENT ASSETS		1,067,550	1,446,744
TOTAL ASSETS LESS CURRENT LIABILITIES		8,326,342	9,164,282

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

YEAR ENDED 31 DECEMBER 2022

	Notes	31 December 2022	31 December 2021
		(HK$'000)	
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	28	2,172,825	2,294,380
Provision	27	29,295	53,870
Defined benefit plan liabilities		2,882	3,534
Other liabilities	30	1,934	2,129
Lease liabilities	15(b)	197,236	201,925
Deferred tax liabilities	29	364,517	510,940
Total non-current liabilities		2,768,689	3,066,778
Net assets		**5,557,653**	**6,097,504**
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	16,680	16,680
Reserves	33	5,499,998	6,044,271
		5,516,678	6,060,951
Non-controlling interests		40,975	36,553
Total equity		**5,557,653**	**6,097,504**

SONG Zhenghuan
Director

LIU Tongyou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2022

	Attributable to owners of the parent												
	Share capital	Share premium	Share option reserve	Statutory reserve funds	Cumulative translation adjustments	Defined benefit plans	Merger reserve	Capital reserve	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	(HK$'000)												
	(note 31)			(note 33)			(note 33)						
At 31 December 2021 and 1 January 2022	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
Profit for the year	–	–	–	–	–	–	–	–	–	33,487	33,487	6,641	40,128
Remeasurement effects of defined benefit plans	–	–	–	–	–	384	–	–	–	–	384	–	384
Cash flow hedges, net of tax	–	–	–	–	–	–	–	–	(22,798)	–	(22,798)	–	(22,798)
Exchange differences on translation	–	–	–	–	(570,533)	–	–	–	–	–	(570,533)	(2,219)	(572,752)
Total comprehensive loss for the year	–	–	–	–	(570,533)	384	–	–	(22,798)	33,487	(559,460)	4,422	(555,038)
Profit appropriation	–	–	–	27,465	–	–	–	–	–	(27,465)	–	–	–
Equity-settled share option arrangements	–	–	15,187	–	–	–	–	–	–	–	15,187	–	15,187
At 31 December 2022	**16,680**	**3,320,411***	**207,590***	**265,117***	**(282,807)***	**5,858***	**153,975***	**(8,256)***	**(11,404)***	**1,849,514***	**5,516,678**	**40,975**	**5,557,653**
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**

* These reserve accounts comprise the consolidated reserves of HK$5,499,998,000 (2021: HK$6,044,271,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2022

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES	**(HK$'000)**	
Profit before tax	1,193	111,812
Adjustments for:		
Finance costs	137,906	90,594
Share of profits and losses of:		
Joint ventures	4,621	(1,277)
An associate	85	8
Interest income	(42,971)	(35,074)
Gain on wealth investment products received	(103)	(841)
(Gain)/loss on disposal of items of property, plant and equipment	(22,342)	114
Loss on disposal of Intangible assets	49	200
Fair value gains, net:		
Derivative instruments – transactions not qualifying as hedges	(12,470)	(1,249)
Gain on call/put options over non-controlling interests	(10,010)	(2,640)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(927)	–
Covid-19-related rent concessions from lessors	–	(97)
Depreciation of property, plant and equipment	298,236	304,586
Depreciation of right-of-use assets	117,284	130,443
Amortisation of other intangible assets	66,554	65,319
Provision of inventories	8,032	2,940
Provision for impairment of receivables	9,346	4,474
Equity-settled share option expenses	15,187	35,540
	569,670	704,852
Decrease/(increase) in inventories	492,760	(344,302)
Decrease/(increase) in trade receivables	240,736	(117,227)
Increase in prepayments and other receivables	(116,695)	(63,898)
Decrease/(increase) in amounts due from related parties	4,272	(243)
(Increase)/decrease in pledged deposits	(4,031)	1,777
Decrease/(increase) in derivative financial assets	25,185	(22,863)
Decrease in other long-term assets	97	34
(Decrease)/increase in trade and bills payables	(466,980)	181,187
Decrease in other payables and accruals	(130,341)	(11,877)
(Decrease)/increase in provision	(51,411)	34,767
Increase/(decrease) in derivative financial liabilities	39,838	(1,743)
Increase/(decrease) in amounts due to related parties	126	(2,623)
Decrease in defined benefit plan liabilities	(630)	(749)
(Decrease)/increase in other liabilities	(195)	257
Cash generated from operations	602,401	357,349
Income tax refund	17,594	26,275
Income tax paid	(68,473)	(70,976)
Net cash flows generated from operating activities	551,522	312,648

	Note	2022	2021
CASH FLOWS FROM INVESTING ACTIVITIES		(HK$'000)	
Interest received		18,563	16,581
Gain on wealth investment products received		103	841
Purchase of property, plant and equipment		(326,413)	(314,506)
Addition to other intangible assets		(33,522)	(44,799)
Proceeds from disposal of property, plant and equipment		27,485	9,096
Investment in an associate		(4,677)	–
Increase in investments in joint ventures		(7,753)	–
Repayment of wealth investment products		7,748	–
Net cash flows used in investing activities		(318,466)	(332,787)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		–	8
New bank loans		11,003,292	3,296,922
Repayment of bank loans		(11,091,612)	(2,555,143)
Interest paid		(118,832)	(80,878)
Principal portion of lease payments		(114,991)	(126,896)
Increase in pledged deposits and time deposits		(23,509)	(1,119,057)
Net cash flows used in financing activities		(345,652)	(585,044)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(112,596)	(605,183)
Cash and cash equivalents at beginning of year		1,087,413	1,693,152
Effect of foreign exchange rate changes, net		(52,856)	(556)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**921,961**	**1,087,413**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

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%	–	Hong Kong Dollar ("HK$") 1,001	Investment holding and sales agent company
Goodbaby Child Products Co., Ltd. ("GCPC") (Notes (a), (b) and (c))	The People's Republic of China ("PRC/Mainland China"), 18 November 1994	–	100%	United States Dollar ("US$") 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") (Notes (a) and (b))	PRC/Mainland China, 9 September 1996	–	85%	Renminbi ("RMB") 10,000,000	Manufacture, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
Pingxiang Goodbaby Child Products Co., Ltd. ("GCPX") (Notes (a) and (b))	PRC/Mainland China, 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") (Notes (a) and (b))	PRC/Mainland China, 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")	The United States ("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%	Mexican Peso ("MXN") 1,720,000	Manufacture of baby related products
Goodbaby Canada Inc. ("EFCA")	Canada, 18 March 1991	–	100%	US$7,000	Distribution and sale of baby related products
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

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		
Goodbaby Czech Republic s.r.o. ("GBCZ")	Czech Republic, 8 February 2016	–	100%	Czech Koruna ("CZK")200,000	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%	Japanese Yen ("JPY") 2,200,000	Distribution and sale of car safety seats, infant strollers and other parenting products
Cybex Retail GmbH ("CBRG")	Germany, 20 October 2021	–	100%	EUR25,000	Wholesale and retail of children's products
Goodbaby (China) Retail & Service Company ("GRCN") (Notes (a), (b) and (c))	PRC/Mainland China, 11 May 2016	–	100%	RMB50,000,000	Wholesale and retail of children's products
Shanghai Goodbaby Children Fashion Co., Ltd. ("SHFS") (Notes (a) and (b))	PRC/Mainland China, 20 January 1998	–	100%	RMB20,000,000	Distribution and retail business of children's products
Goodbaby Nantong Fashion Co., Ltd. ("NTFS") (Notes (a) and (b))	PRC/Mainland China, 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 wholly-foreign-owned enterprises in the PRC

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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 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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.

2.1 BASIS OF PREPARATION (Continued)

BASIS OF CONSOLIDATION (Continued)

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.

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 3	*Reference to the Conceptual Framework*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IFRS 3 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* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) 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 as determined by IAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) 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 Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) Annual Improvements to IFRSs 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are 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. The Group has applied the amendment prospectively from 1 January 2022. As the fees included in the modification of the Group's financial liabilities during the year meet the definition above, the amendment did not have any impact on the financial position or performance of the Group.

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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 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[2, 4]
Amendments to IAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, 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 to align the corresponding wording with no change in conclusion

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss 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 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.

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

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. 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. In 2022, the IASB issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

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 revisiting the accounting policy disclosures to ensure consistency with the amendments.

NOTES TO FINANCIAL STATEMENTS

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

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 in IAS 12 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 (provided that sufficient taxable profit is available) 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.

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 an associate and 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS IN AN ASSOCIATE AND JOINT VENTURES (Continued)

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 ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate or joint ventures is included as part of the Group's investment in an associate or joint ventures.

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

BUSINESS COMBINATIONS AND GOODWILL

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUSINESS COMBINATIONS AND GOODWILL (Continued)

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 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 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 or liabilities of the Group are assigned to those units or groups of units.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAIR VALUE MEASUREMENT

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

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

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

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

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. 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 2022

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 to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are 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$1,638,379,000 (2021: HK$1,767,585,000) 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

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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 2022

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 2022

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERECOGNITION OF FINANCIAL ASSETS (Continued)

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

General approach

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

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 that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF FINANCIAL ASSETS (Continued)

General approach (Continued)

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

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

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES (Continued)

Subsequent measurement (Continued)

Financial liabilities at fair value through profit or loss (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (Continued)

Initial recognition and subsequent measurement (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)

Initial recognition and subsequent measurement (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 2022

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, joint ventures and an associate 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. Deferred tax assets are recognised 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, joint ventures and an associate, 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 2022

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.

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 2022

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 in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period. 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 2022

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 operate 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 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 2022 and 2021.

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

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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 2022 was approximately HK$2,631,379,000 (2021: HK$2,812,866,000). Further details are given in note 16.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

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 2022 was HK$78,971,000 (2021: HK$29,616,000). The amount of unrecognised tax losses at 31 December 2022 was HK$45,673,000 (2021: HK$23,568,000). Details of unrecognised tax losses as at the end of the reporting period are contained in note 29.

Write-down of inventories

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

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.

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

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4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2022

	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Consolidated
	(HK$'000)				
Segment revenue					
Sales to external customers	3,313,938	3,190,042	799,695	988,477	8,292,152
Segment results	**1,383,169**	**1,312,367**	**396,174**	**264,171**	**3,355,881**
Other income and gains					165,429
Corporate and other unallocated expenses					(3,429,044)
Other expenses					(2,437)
Finance income					42,971
Finance costs (other than interest on lease liabilities)					(126,901)
Share of profits and losses of joint ventures					(4,621)
Share of profits and losses of an associate					(85)
Profit before tax					**1,193**
Other segment information:					
Impairment losses recognised in the statement of profit or loss, net	7,881	4,584	3,500	1,413	17,378
Depreciation and amortisation	207,428	184,493	46,129	44,024	482,074

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

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 2022					
Segment revenue:					
Sales to external customers	3,124,784	3,011,209	1,616,200	539,959	8,292,152
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

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

4. OPERATING SEGMENT INFORMATION (Continued)

GEOGRAPHICAL INFORMATION (Continued)

(b) Non-current assets

	2022	2021
	(HK$'000)	
Mainland China	5,156,734	5,536,212
North America	1,016,219	989,234
Europe	993,336	1,089,176
	7,166,289	**7,614,622**

The non-current asset information above is based on the locations of the assets excluding deferred tax assets, other non-current assets, investments in joint ventures and an investment in an associate.

INFORMATION ABOUT TWO MAJOR CUSTOMERS

During the year ended 31 December 2022, revenue from sales to the two major third-party customers were HK$982,117,000 and HK$942,188,000, respectively (2021: one major customer amounting to HK$979,716,000). The revenue from sales to the customers were 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 the customers.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022	2021
	(HK$'000)	
Revenue from contracts with customers		
Sale of goods	8,258,811	9,657,536
Rendering of testing services	33,341	34,601
	8,292,152	**9,692,137**

REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Disaggregated revenue information

For the year ended 31 December 2022

Segments	Strollers and accessories	Car seats and accessories	Non-durable products	Others	Total
	HK$'000				
Type of goods or services					
Sale of goods	3,313,938	3,190,042	799,695	955,136	8,258,811
Rendering of testing services	–	–	–	33,341	33,341
Total revenue from contracts with customers	**3,313,938**	**3,190,042**	**799,695**	**988,477**	**8,292,152**
Timing of revenue recognition					
Goods transferred at a point in time	3,313,938	3,190,042	799,695	955,136	8,258,811
Services transferred at a point in time	–	–	–	33,341	33,341
Total revenue from contracts with customers	**3,313,938**	**3,190,042**	**799,695**	**988,477**	**8,292,152**
Revenue from contracts with customers					
External customers	**3,313,938**	**3,190,042**	**799,695**	**988,477**	**8,292,152**

5. REVENUE, OTHER INCOME AND GAINS (Continued)

REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

(i) Disaggregated revenue information (Continued)

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**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

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:

	2022	2021
	(HK$'000)	
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	124,755	146,226

(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 2022 are as follows:

	2022	2021
	(HK$'000)	
Amounts expected to be recognised as revenue:		
Within one year	122,868	124,755

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

5. REVENUE, OTHER INCOME AND GAINS (Continued)

OTHER INCOME AND GAINS

	2022	2021
	(HK$'000)	
Other income and gains:		
Government grants (note (a))	43,513	53,144
Net foreign exchange gain	41,987	–
Gain on disposal of fixed assets (note (b))	22,342	–
Gain on sales of scrap materials (note (c))	10,518	10,890
Compensation income (note (d))	9,711	7,225
Service fee income	6,660	1,344
Fair value gains, net:		
Gains on call/put options over non-controlling interests	10,010	2,640
Derivative instruments – transactions not qualifying as hedges	12,470	1,249
Gain on wealth investment products	103	841
Others	8,115	3,467
Total	**165,429**	**80,800**

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

Note (b): The amount represents the gain on disposal of building, machinery and other fixed assets.

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

Note (d): The amount represents the compensation received from customers due to cancellation of orders and suppliers as a result of defective products or shipment delay in the normal course of business.

NOTES TO FINANCIAL STATEMENTS

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6. FINANCE INCOME

	2022	2021
	(HK$'000)	
Interest income on bank deposits	42,971	35,074

7. FINANCE COSTS

	2022	2021
	(HK$'000)	
Interest on bank loans, overdrafts and other loans	126,901	81,316
Interest on lease liabilities	11,005	9,278
	137,906	90,594

8. PROFIT BEFORE TAX

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

	Notes	2022	2021
		(HK$'000)	
Cost of inventories sold		4,918,149	5,681,016
Cost of services provided		18,122	15,893
Depreciation of property, plant and equipment	14	298,236	304,586
Depreciation of right-of-use assets	15(a)	117,284	130,443
Amortisation of intangible assets	17	66,554	65,319
Research and development costs		406,964	418,866
Lease payments not included in the measurement of lease liabilities	15(c)	26,487	32,861
Auditors' remuneration		9,182	9,072
Employee benefit expense (including directors' remuneration):			
Wages, salaries and other benefits		1,686,616	1,728,891
Share option expense		15,187	35,540
Pension scheme costs (defined benefit plans) (including administrative expense)		89	89
Pension scheme contributions*		100,617	100,989
		1,802,509	1,865,509
Net foreign exchange (gain)/loss		(41,987)	4,861
Impairment of trade receivables	20	9,346	4,474
Provision of inventories		8,032	2,940
Product warranties and liabilities		45,253	85,246
Fair value gains, net:			
Derivative instruments – transactions not qualifying as hedges		(12,470)	(1,249)
Gains on call/put options over non-controlling interests		(10,010)	(2,640)
Gain on wealth investment products		(103)	(841)
(Gain)/loss on disposal of items of property, plant and equipment		(22,342)	114
Loss on disposal of intangible assets		49	200
Bank interest income		(42,971)	(35,074)

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

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:

	2022	2021
	(HK$'000)	
Fees	3,121	3,770
Other emoluments:		
Salaries, allowances and benefits in kind	26,557	28,292
Performance-related bonuses	17	8,686
Equity-settled share option expenses	10,112	19,982
Pension scheme contributions	408	360
	37,094	57,320
	40,215	**61,090**

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	2022	2021
	(HK$'000)	
Chiang Yun	408	311
Shi Xiaoguang	313	311
Jin Peng	235	233
Iain Ferguson Bruce	196	466
So Tak Young	190	–
	1,342	**1,321**

There were no other emoluments payable to the independent non-executive directors in 2022 (2021: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(B) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

2022

	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	–	3,479	–	–	–	3,479
Michael, Qu Nan	–	3,256	17	635	98	4,006
Martin Pos	–	11,909	–	5,468	–	17,377
Liu Tongyou	–	3,982	–	801	155	4,938
Xia Xinyue	–	3,931	–	3,125	155	7,211
	–	**26,557**	**17**	**10,029**	**408**	**37,011**
Non-executive directors:						
Eric, Ho Kwok Yin	235	–	–	–	–	235
Fu Jinqiu	1,544	–	–	83	–	1,627
	1,779	**–**	**–**	**83**	**–**	**1,862**

NOTES TO FINANCIAL STATEMENTS

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9. DIRECTORS' REMUNERATION (Continued)

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

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**

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2021: three), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2021: two) non-directors, highest paid employees for the year are as follows:

	2022	2021
	(HK$'000)	
Salaries, allowances and benefits in kind	8,854	9,791
Performance related bonuses	1,323	1,942
Pension scheme contributions	264	260
	10,441	**11,993**

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

	Number of employees	
	2022	2021
HK$4,000,001 to HK$4,500,000	1	1
HK$6,000,001 to HK$7,000,000	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 (2021: 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% (2021: 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 (2021: 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

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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 1% to 12% 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%.

The Group's subsidiary registered in Canada is subject to Federal income tax based on the taxable income at the rate of 15% and provincial and territorial income tax at rates ranging from 8% to 16%.

The Group's subsidiary registered in the United Arab Emirates is subject to income tax at the rate of 0%. However, the federal UAE CIT will be introduced from June 2023. The standard tax rate is 9%.

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.

11. INCOME TAX (Continued)

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

	2022	2021
	(HK$'000)	
Current – income tax		
Charge for the year	48,366	38,516
Deferred income tax (note 29)	(87,301)	(54,265)
Income tax credit reported in the statement of profit or loss	**(38,935)**	**(15,749)**

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:

	2022	2021
	(HK$'000)	
Profit before tax	1,193	111,812
Expected income tax based on different rates applicable to profits in the countries covered	(10,921)	3,782
Temporary difference and tax losses utilized from prior years	(15,152)	–
Temporary difference and tax losses not recognised	4,371	4,115
Tax credit arising from additional deduction of R&D expenditures of PRC subsidiaries	(14,910)	(29,140)
Tax effect on non-taxable income	(11,141)	(1,164)
Tax effect on non-deductible expenses	8,818	6,658
Income tax credit	**(38,935)**	**(15,749)**

12. DIVIDENDS

The Board did not recommend the payment of any dividend for the years ended 31 December 2022 and 2021.

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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 1,668,031,166 in issue during the year (2021: 1,668,027,659).

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:

	2022	2021
	(HK$'000)	
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**33,487**	**123,817**

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,668,031,166	1,668,027,659
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	1,738,426
Total	**1,668,031,166**	**1,669,766,085**

14. PROPERTY, PLANT AND EQUIPMENT

31 DECEMBER 2022

	Buildings and land	Plant and machinery	Motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
				(HK$'000)			
At 31 December 2021 and at 1 January 2022:							
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**
At 1 January 2022, net of accumulated depreciation	219,697	431,130	6,803	124,033	162,610	87,358	1,031,631
Additions	5,374	46,087	36	34,192	126,802	118,659	331,150
Disposals	(8,120)	(287)	(53)	(871)	(549)	–	(9,980)
Depreciation provided during the year	(39,115)	(129,435)	(3,485)	(50,628)	(75,573)	–	(298,236)
Transfers	8,961	98,185	281	15,810	10,132	(133,369)	–
Exchange realignment	(12,261)	(26,096)	(369)	(7,536)	(16,696)	(5,608)	(68,566)
At 31 December 2022, net of accumulated depreciation and impairment	**174,536**	**419,584**	**3,213**	**115,000**	**206,726**	**67,040**	**986,099**
At 31 December 2022:							
Cost	596,979	1,333,220	22,682	382,844	426,842	67,040	2,829,607
Accumulated depreciation and impairment	(422,443)	(913,636)	(19,469)	(267,844)	(220,116)	–	(1,843,508)
Net carrying amount	**174,536**	**419,584**	**3,213**	**115,000**	**206,726**	**67,040**	**986,099**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

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	(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**

At 31 December 2022, certain of the Group's machinery with a net carrying amount of approximately HK$2,347,000 (2021: HK$5,834,000) 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 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 and 1 January 2022	47,752	268,235	2,373	15,934	2,255	336,549
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(750)	–	–	–	(750)
Additions	–	123,196	128	10,267	3,467	137,058
Depreciation charge	(1,557)	(101,978)	(970)	(9,071)	(3,708)	(117,284)
Exchange realignment	(4,433)	(19,480)	3	(970)	(141)	(25,021)
As at 31 December 2022	**41,762**	**269,223**	**1,534**	**16,160**	**1,873**	**330,552**

NOTES TO FINANCIAL STATEMENTS

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15. LEASES (Continued)

THE GROUP AS A LESSEE (Continued)

(b) Lease liabilities

	2022	2021
	(HK$'000)	
Carrying amount at 1 January	300,904	218,777
New leases	137,058	213,708
Revision of a lease term arising from a change in the non-cancellable period of a lease	(1,677)	–
Covid-19-related concessions from lessors	–	(97)
Interest expense	11,005	9,278
Payments	(125,996)	(136,174)
Exchange realignment	(21,122)	(4,588)
Carrying amount at 31 December	**300,172**	**300,904**
Analysed into:		
Current portion	102,936	98,979
Non-current portion	**197,236**	**201,925**

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

	2022	2021
	(HK$'000)	
Interest on lease liabilities	11,005	9,278
Depreciation charge of right-of-use assets	117,284	130,443
Expense relating to short-term leases	25,366	30,966
Variable lease payments not included in the measurement of lease liabilities	1,121	1,857
Covid-19-related rent concessions from lessors	–	(97)
Expense relating to leases of low-value assets	–	38
At end of year	**154,776**	**172,485**

(d) The total cash outflow for leases is disclosed in note 34(c) to the financial statements.

16. GOODWILL

	(HK$'000)
Cost and net carrying amount at 1 January 2021	2,763,595
Exchange realignment	49,271
Cost and net carrying amount at 31 December 2021 and 1 January 2022	2,812,866
Exchange realignment	(181,487)
Cost and net carrying amount at 31 December 2022	**2,631,379**

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

Goodwill is allocated to the following CGU for impairment testing:

	2022	2021
	(HK$'000)	
Manufacture and export of stroller-related products unit	14,002	15,301
Evenflo unit	614,291	614,425
Columbus unit	185,359	196,832
NICAM unit	5,005	5,315
Oasis Dragon unit	1,812,722	1,980,993
	2,631,379	**2,812,866**

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

	2022	2021
	(HK$'000)	
Evenflo unit	137,713	137,743
Columbus unit	327,456	347,725
Oasis Dragon unit	1,173,210	1,282,116
	1,638,379	**1,767,584**

NOTES TO FINANCIAL STATEMENTS

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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 2.3% (2021: 2.5%). The pre-tax discount rate applied to the cash flow projections as at 31 December 2022 was 16.7% (2021: 16.5%).

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% (2021: 2.0%). The pre-tax discount rate applied to the cash flow projections as at 31 December 2022 was 12.2% (2021: 12.9%).

Columbus unit

The recoverable amount of the Columbus unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of Columbus unit beyond the five-year period is 2.0% (2021: 1.2%). The pre-tax discount rate applied to the cash flow projections as at 31 December 2022 was 16.3% (2021: 16.8%).

NICAM unit

The recoverable amount of the NICAM unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of NICAM unit beyond the five-year period is 2.0% (2021: 1.2%). The pre-tax discount rate applied to the cash flow projections as at 31 December 2022 was 16.9% (2021: 12.9%).

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 2.3% (2021: 2.5%). The pre-tax discount rate applied to the cash flow projections as at 31 December 2022 was 14.8% (2021: 14.8%).

16. GOODWILL (Continued)

KEY ASSUMPTIONS USED IN THE VALUE IN USE CALCULATION

Assumptions were used in the value in use calculation of the above cash-generating units for each reporting date. The following describes each key assumption on which senior management has based its cash flow projections to undertake impairment testing of goodwill:

"Budgeted gross margins"	—	The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.
"Discount rate"	—	The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

31 DECEMBER 2022

	Trademarks	Computer software	Non-compete agreement	Customer relationship	Patents	Total
	(HK$'000)					
At 31 December 2021 and at 1 January 2022:						
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**
At 1 January 2022, net of accumulated amortisation	1,780,059	67,027	76	397,235	37,158	2,281,555
Additions	1,595	27,364	–	–	7,577	36,536
Disposals	–	(49)	–	–	–	(49)
Amortisation provided during the year	(2,059)	(20,527)	(72)	(38,313)	(5,583)	(66,554)
Exchange realignment	(128,446)	(4,724)	(4)	(27,474)	(4,269)	(164,917)
At 31 December 2022, net of accumulated depreciation	**1,651,149**	**69,091**	**–**	**331,448**	**34,883**	**2,086,571**
At 31 December 2022:						
Cost	1,684,976	167,168	6,848	546,304	81,097	2,486,393
Accumulated amortisation	(33,827)	(98,077)	(6,848)	(214,856)	(46,214)	(399,822)
Net carrying amount	**1,651,149**	**69,091**	**–**	**331,448**	**34,883**	**2,086,571**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

17. OTHER INTANGIBLE ASSETS (Continued)

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**

18. OTHER LONG-TERM ASSETS

Other long-term assets represent a deposit for insurance over one year of HK$11,197,000 (2021: HK$11,294,000).

19. INVENTORIES

	2022	2021
	(HK$'000)	
Raw materials	273,698	341,062
Work in progress	20,176	59,372
Finished goods	1,608,135	2,002,367
	1,902,009	**2,402,801**

20. TRADE RECEIVABLES

	2022	2021
	(HK$'000)	
Trade receivables	1,040,037	1,282,135
Impairment of trade receivables	(42,709)	(34,725)
	997,328	**1,247,410**

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.

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

	2022	2021
	(HK$'000)	
Within 3 months	906,679	1,171,109
3 to 6 months	33,004	39,751
6 months to 1 year	28,719	30,388
Over 1 year	28,926	6,162
	997,328	**1,247,410**

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31 DECEMBER 2022

20. TRADE RECEIVABLES (Continued)

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

	2022	2021
	(HK$'000)	
At beginning of year	34,725	31,484
Impairment losses, net	9,346	4,474
Exchange realignment	(1,362)	(1,233)
At end of year	**42,709**	**34,725**

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 2022

	Within 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Expected credit loss rate	0.34%	4.01%	8.76%	55.11%	4.11%
Gross carrying amount (HK$'000)	909,740	34,383	31,478	64,436	1,040,037
Expected credit losses (HK$'000)	**3,061**	**1,379**	**2,759**	**35,510**	**42,709**

20. TRADE RECEIVABLES (Continued)

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**

21. PREPAYMENTS AND OTHER RECEIVABLES

	2022	2021
	(HK$'000)	
Prepayments	147,112	141,958
Other receivables	308,540	341,787
Value added tax ("VAT") recoverable	104,304	99,581
Income tax receivable	12,248	58,625
	572,204	**641,951**

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 2022 and 2021, the loss allowance was assessed to be minimal.

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22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
	(HK$'000)	
Call options over non-controlling interests with an expiration date within one year	28,519	10,606
Wealth investment products	–	7,218
	28,519	**17,824**

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	2022	2021
		(HK$'000)	
Cash and bank balances		956,567	1,094,479
Time deposits	(i)	1,113,100	1,154,409
		2,069,667	**2,248,888**
Less: Pledged deposits for:			
Certain standby letter of credit and guarantee	28(b)	(798,515)	(812,666)
Long term bank loans		–	(330,316)
Accrued interest of pledged deposits and time deposits	(i)	(42,902)	(18,493)
Non-pledged time deposits with original maturity of more than three months when acquired	(ii)	(302,258)	–
Other restricted bank balances		(4,031)	–
Cash and cash equivalents		**921,961**	**1,087,413**

Note (i): The time deposits held by the Group as of 31 December 2022 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.

Note (ii): The time deposits were pledged for long term bank loans which have been prepaid in 2022. The Group has released the pledge in March 2023.

23. CASH AND CASH EQUIVALENTS (Continued)

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$767,917,000 (2021: HK$803,784,000), included in which is cash-in-transit of HK$23,390,000. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2022	
	Assets	Liabilities
	(HK$'000)	
Forward currency contracts		
– designated as hedging instruments	15,361	44,098

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

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24. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

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 2022						
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	116,951	191,019	101,357	–	–	409,327
Average forward rate (US$/RMB)	6.5669	6.8989	6.9782	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	432,088	249,282	257,591	235,987	–	1,174,948
Average forward rate (EUR/RMB)	7.1082	7.2135	7.2396	7.2545	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	39,719	37,494	30,352	26,781	8,927	143,273
Average forward rate (GBP/EUR)	1.0662	1.1604	1.1547	1.1494	1.1457	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	5,334	4,846	5,256	5,317	1,673	22,426
Average forward rate (CHF/EUR)	1.0024	1.0339	1.0374	1.0408	1.0429	

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$'000)	20,778	–	–	–	–	20,778
Average forward rate (EUR/JPY)	132.77	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	29,389	8,792	8,792	8,792	21,101	76,866
Average forward rate (JPY/EUR)	0.0075	0.0074	0.0074	0.0074	0.0074	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	1,924	–	–	–	–	1,924
Average forward rate (EUR/CHF)	0.9449	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	1,655	–	–	–	–	1,655
Average forward rate (NOK/EUR)	0.0987	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	1,723	–	–	–	–	1,723
Average forward rate (EUR/NOK)	10.1272	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	7,231	–	–	–	–	7,231
Average forward rate (SEK/EUR)	0.0934	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	32,399	–	–	–	–	32,399
Average forward rate (CAD/US$)	0.7990	–	–	–	–	
Foreign currency forward contracts (highly probable forecasted sales)						
Notional amounts (HK$'000)	23,825	23,666	23,535	23,410	–	94,436
Average forward rate (EUR/US$)	1.0463	1.0533	1.0592	1.0649	–	

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24. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amounts	Carrying amounts	Line item in the statement of financial position
	(HK$'000)		
As at 31 December 2022			
Foreign currency forward contracts	457,540	15,361	Derivative financial instruments (assets)
Foreign currency forward contracts	1,529,446	(44,098)	Derivative financial instruments (liabilities)

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 2022		
Highly probable forecast sales	**(5,939)**	**(22,798)**

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 2022									
Highly probable forecast sales	(56,530)	8,105	(48,425)	12,470	Other income and gains	30,066	(4,439)	25,627	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:

	2022	2021
	(HK$'000)	
Within 3 months	858,407	1,368,263
3 to 12 months	300,273	261,248
1 to 2 years	7,687	3,297
2 to 3 years	1,173	3,074
Over 3 years	2,113	751
	1,169,653	**1,636,633**

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.

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26. OTHER PAYABLES AND ACCRUALS

	Notes	2022	2021
		(HK$'000)	
Other payables	(a)	204,819	245,568
Contract liabilities	(b)	122,868	124,755
Accruals		456,751	534,704
		784,438	**905,027**

(a) Other payables are non-interest-bearing and repayable on demand, including a put options over non-controlling interests which was HK$14,583,000(2021: HK$6,487,000).

(b) Details of contract liabilities are as follows:

	31 December 2022	31 December 2021
	(HK$'000)	
Short-term advances from customers		
Sale of goods	122,456	124,591
Rendering of testing services	412	164
	122,868	**124,755**

Contract liabilities include short-term advances received to deliver goods and render testing services. The increase in contract liabilities in 2022 was mainly due to the increase in short-term advances from customers in relation to the sale of goods.

27. PROVISION

	Product warranties and liabilities
	(HK$'000)
Balance at 1 January 2021	118,106
Additional provision	85,246
Amounts utilised	(47,581)
Exchange realignment	(2,898)
Balance at 31 December 2021 and 1 January 2022	152,873
Additional provision	45,253
Amounts utilised	(93,588)
Exchange realignment	(3,076)
Balance at 31 December 2022	**101,462**
Portion classified as current liabilities	72,167
Non-current portion	**29,295**

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 2022, the amount of product warranties was HK$42,107,000.

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 2022, the amount of product liabilities was HK$59,355,000.

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28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

		As at 31 December 2022		As at 31 December 2021	
		Maturity	HK$'000	Maturity	HK$'000
Current					
Bank overdrafts – secured	Note (a) and Note (b)	2023	217,974	2022	301,238
Bank overdrafts – unsecured	Note (a)	2023	1,503	2022	156
Current portion of long-term bank loans – unsecured		2023	–	2022	489,357
Current portion of long-term bank loans – secured	Note (b)	2023	364,481		–
Bank borrowings – secured	Note (b)	2023	290,139	2022	334,013
Bank borrowings – unsecured		2023	307,856	2022	97,872
Promissory note	Note (c)		–	2022	468
			1,181,953		1,223,104
Non-current					
Bank borrowings – secured	Note (b)	2024-2025	1,691,450	2023-2024	2,294,380
Bank borrowings – unsecured		2024-2025	481,375		–
			2,172,825		2,294,380
Total			**3,354,778**		**3,517,484**

Note (a): The bank overdraft facilities amounted to HK$361,458,000 of which HK$219,477,000 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 2022, 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$2,347,000; and

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.

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 0.63% to 6.18% (2021: 0.59% to 3.1%).

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

	2022	2021
	(HK$'000)	
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year	1,181,953	1,223,104
In the second year	2,139,241	220,062
In the third year	33,584	2,074,318
	3,354,778	**3,517,484**

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29. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

DEFERRED TAX ASSETS:

	Write-down of inventories	Leases	Accruals	Losses available for offsetting against future taxable profits	Unrealised profit	Others	Total
				(HK$'000)			
As at 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
Credited to other comprehensive income	–	–	–	–	–	611	611
Exchange realignment	(620)	(592)	321	(182)	(8)	(394)	(1,475)
As at 31 December 2021 and 1 January 2022	12,464	54,417	48,389	29,616	77,524	25,975	248,385
Credited/(charged) to profit or loss (note 11)	(2,392)	14,620	(18,015)	51,586	16,090	27,629	89,518
Charged to other comprehensive income	–	–	–	–	–	(309)	(309)
Exchange realignment	(565)	(3,460)	(821)	(2,231)	(1,835)	(414)	(9,326)
As at 31 December 2022	**9,507**	**65,577**	**29,553**	**78,971**	**91,779**	**52,881**	**328,268**

29. DEFERRED TAX (Continued)

DEFERRED TAX LIABILITIES:

	Withholding tax on undistributed profits	Depreciation	Leases	Other intangible assets	Others	Total
	(HK$'000)					
At 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
Charged to other comprehensive income	–	–	–	–	2,559	2,559
Exchange realignment	1,202	2,875	(426)	1,732	(982)	4,401
At 31 December 2021 and 1 January 2022	20,923	31,814	51,907	554,050	15,522	674,216
Charged/(credited) to profit or loss (note 11)	–	6,964	14,678	(13,761)	(5,664)	2,217
Credited to other comprehensive income	–	–	–	–	(3,975)	(3,975)
Exchange realignment	(995)	(2,383)	(3,379)	(40,296)	(33)	(47,086)
At 31 December 2022	**19,928**	**36,395**	**63,206**	**499,993**	**5,850**	**625,372**

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 2022 will not be appropriated to GBHK in 2021 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 2022.

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29. DEFERRED TAX (Continued)

At 31 December 2022, 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$2,637,669,000 at 31 December 2022 (2021: HK$2,312,696,000).

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:

	2022	2021
	(HK$'000)	
Reflected in the consolidated statement of financial position:		
– Deferred tax assets	67,413	85,109
– Deferred tax liabilities	364,517	510,940

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

	2022	2021
	(HK$'000)	
Tax losses	**45,673**	**22,232**

The Group has tax losses arising in Germany of HK$26,090,000 (2021: HK$2,724,000) 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$14,212,000 (2021: HK$74,000) 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$5,371,000 (2021: HK$19,434,000) 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 item can be utilised.

30. OTHER LIABILITIES

Included in other liabilities is employee compensation of HK$1,934,000 (2021: HK$2,129,000) of overseas subsidiaries.

31. SHARE CAPITAL

	As at 31 December 2022	As at 31 December 2021
	(HK$'000)	
Issued and fully paid:		
1,668,031,000 (2021: 1,668,031,000) 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 2021	1,668,023	16,680	3,320,401	3,337,081
Share options exercised	8	–	10	10
At 31 December 2021 and 1 January 2022	1,668,031	16,680	3,320,411	3,337,091
At 31 December 2022	**1,668,031**	**16,680**	**3,320,411**	**3,337,091**

SHARE OPTIONS

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

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32. 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.

32. 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 closing price of the Company's shares as quoted on the Stock Exchange on the date of offer of the share options; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange 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 2021	3.984	109,080
Forfeited during the year	3.750	(2,400)
At 31 December 2021 and 1 January 2022	3.989	106,680
Forfeited during the year	3.750	(2,810)
At 31 December 2022	3.996	**103,870**

No share options were exercised or cancelled during the years ended 31 December 2022 (2021: nil).

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32. 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:

2022

Number of options	Exercise price	Exercise period
'000	HK$ per share	
7,327	3.58	29 September 2017 to 28 September 2024
8,826	3.58	29 September 2018 to 28 September 2024
8,126	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
6,970	3.75	23 May 2022 to 22 May 2029
10,395	3.75	23 May 2023 to 22 May 2029
17,325	3.75	23 May 2024 to 22 May 2029
103,870		

32. SHARE OPTION SCHEME (Continued)

(A) 2010 SHARE OPTION SCHEME (Continued)

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		

(B) 2020 SHARE OPTION SCHEME

	Weighted average exercise price	Number of options
	HK$ per share	’000
At 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 and 1 January 2022	0.966	29,419
Granted and accepted during the year	1.042	675
Forfeited during the year	0.969	(1,663)
At 31 December 2022	**0.943**	**28,431**

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32. SHARE OPTION SCHEME (Continued)

(B) 2020 SHARE OPTION SCHEME (Continued)

No share options were exercised or cancelled during the years ended 31 December 2022 and the weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2021 was HK$1.80 per share.

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

2022

Number of options	Exercise price	Exercise period
'000	HK$ per share	
93	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
2,108	0.96	27 September 2020 to 27 March 2028
3,161	0.96	27 September 2021 to 27 March 2028
5,268	0.96	27 September 2022 to 27 March 2028
180	0.96	28 May 2021 to 27 May 2028
270	0.96	28 May 2022 to 27 May 2028
430	0.96	28 May 2023 to 27 May 2028
2,483	0.96	23 May 2022 to 22 May 2029
3,594	0.96	23 May 2023 to 22 May 2029
5,991	0.96	23 May 2024 to 22 May 2029
798	1.01	11 December 2023 to 10 December 2030
1,198	1.01	11 December 2024 to 10 December 2030
1,996	1.01	11 December 2025 to 10 December 2030
135	1.042	16 June 2025 to 15 June 2032
202	1.042	16 June 2026 to 15 June 2032
338	1.042	16 June 2027 to 15 June 2032
28,431		

32. SHARE OPTION SCHEME (Continued)

(B) 2020 SHARE OPTION SCHEME (Continued)

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		

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32. SHARE OPTION SCHEME (Continued)

The fair value of the share options granted during the year ended 31 December 2022 was HK$337,500, of which the Group recognised share option expenses of HK$22,000.

The fair value of equity-settled share options granted was estimated as at the date of grant using a binomial tree 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 16 June 2022
Fair value under binomial model (HKS)	337,500
Dividend yield (%)	0.00
Spot stock price (HK$ per share)	1.042
Historical volatility (%)	46.73
Risk-free interest rate (%)	3.342
Expected life of options (year)	**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 Group overall recognised a share option expense of HK$15,187,000 (2021: HK$35,540,000) for the year ended 31 December 2022.

At the end of the reporting period, the Company had 103,870,000 and 28,431,300 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 132,301,300 additional ordinary shares of the Company and additional share capital of HK$1,323,010 and share premium of HK$440,563,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 103,270,000 and 28,149,500 share options outstanding under the 2010 Share Option Scheme and 2020 Share Option Scheme respectively, which represented approximately 6.19% and 1.69% of the Company's shares in issue as at that date.

33. RESERVES

The changes in the reserves of the Group during the year have been disclosed in the consolidated statement of changes in equity of the Group.

STATUTORY RESERVE FUNDS

Statutory reserve funds comprise:

(i) Reserve fund

PRC laws and regulations require wholly – 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.

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33. RESERVES (Continued)

MERGER RESERVE

As at 31 December 2022, the merger reserve represents the following:

(i) In 2001, the Group acquired GCPC from GCPC's then shareholders through the issue of the Company's shares to GCPC's then shareholders. The difference between the nominal value of the Company's share of the paid-up capital of GCPC and the par value of the Company's shares issued amounting to HK$108,281,000 was recognised in the merger reserve account.

(ii) In 2007, Geoby Electric Vehicle Co., Ltd. ("GPCL") was established to take over certain operations from the Group and the net asset value of the discontinued operation over the consideration received amounting to HK$1,362,000 was recognised as a deemed distribution in the merger reserve account.

(iii) The Group acquired the wooden products and E-car businesses through acquiring a 100% equity interest in PCPC in June 2010 and this acquisition was accounted for using the pooling of interests method. Prior to the establishment of PCPC on 5 November 2008, the wooden products and E-car businesses were carried out by a fellow subsidiary, GPCL. Upon establishment, PCPC acquired all the assets and liabilities related to the wooden products and E-car businesses from GPCL at their respective book values and continued the wooden products and E-car businesses afterwards. Accordingly, the retained earnings of HK$11,357,000 in respect of the wooden products and E-car businesses generated prior to the establishment of PCPC were capitalised in the merger reserve account in 2008.

(iv) In 2010, the Group disposed of its equity interests in Goodbaby (China) Commercial Co., Ltd. ("GCCL"), Shanghai Goodbaby Fashion Co., Ltd. ("SHFS"), Shanghai Online Service Co., Ltd. ("SGOL"), Ricky Bright Limited ("RCBL"), Mothercare Goodbaby China Retail Limited ("MGCR") and Mothercare-Goodbaby Retailing Co., Ltd. ("MGRL") to G-Baby Holdings Limited ("GBHL") for a consideration of HK$287,936,000 in aggregate. The consideration over the net asset value of the discontinued operations amounting to HK$35,699,000 was recognised as a deemed contribution in the merger reserve account.

HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(A) MAJOR NON-CASH TRANSACTIONS

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$137,058,000 (2021: HK$213,708,000) and HK$137,058,000 (2021: HK$213,708,000), respectively, in respect of lease arrangements for plant and equipment.

During the year, the Group had reclassified pledged time deposits amounting to HK$302,258,000 (2021: nil) to time deposit, due to the settlements of related bank borrowings.

(B) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES:

2022

	Interest-bearing bank loans and other borrowings	Lease liabilities
	(HK$'000)	
At 1 January 2022	3,517,484	300,904
Changes from financing cash flows	(88,320)	(125,996)
New leases	–	137,058
Interest expense	20,769	11,005
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(1,677)
Foreign exchange realignment	(95,155)	(21,122)
	3,354,778	**300,172**

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**

NOTES TO FINANCIAL STATEMENTS

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34. 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:

	2022	2021
	(HK$'000)	
Within operating activities	26,487	42,139
Within financing activities	125,996	126,896
	152,483	**169,035**

35. 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.

36. 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.

37. COMMITMENTS

The Group had the following capital commitments as at 31 December:

	2022	2021
	(HK$'000)	
Contracted but not provided for:		
Property plant and equipment	3,768	10,012
Capital contributions payable to an associate	4,478	9,787
	8,246	**19,799**

38. 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 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

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38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(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:

	2022	2021
	(HK$'000)	
Sales of goods to related parties (note (a))		
CAGB and its subsidiaries#	1,112	7,817
GCQT	309	–
	1,421	7,817
Purchase of goods from related parties (note (b))		
GCQT	57	714
Service charge from a related party (note (c))		
GCQT	7,300	568

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.

\# The related party transactions marked with # above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules which are exempted from the independent shareholders' approval, but subject to the reporting, annual review and announcement requirements of the Listing Rules.

38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(C) OUTSTANDING BALANCES WITH RELATED PARTIES

The amounts due from related parties are unsecured, interest-free and repayable in 120 days.

	2022	2021
	(HK$'000)	
Amounts due from related parties:		
GCQT	2,503	574
CAGB and its subsidiaries	–	6,201
	2,503	**6,775**
Lease liabilities due to a related party (note (a)):		
GGPX	**38,517**	**49,525**
Amounts due to related parties:		
GCTP	448	489
GBMS	282	115
	730	**604**

Note (a): The Group has entered into lease agreements in respect of certain warehouse and plant from GGPX. At 31 December 2022, the Group recognised right-of-use assets of HK$37,765,000 and lease liabilities of HK$38,517,000. The transactions were made according to the prices and terms agreed with the related parties.

(D) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2022	2021
	(HK$'000)	
Short term employee benefits	40,090	51,797
Equity-settled share option expense	8,501	24,501
Post-employment benefits	791	737
Total compensation paid to key management personnel	**49,382**	**77,035**

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

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39. 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	
	2022	2021	2022	2021
	(HK$'000)			
Financial assets				
Derivative financial instruments	15,361	40,546	15,361	40,546
Pledged deposits, non-current portion	829,430	1,152,021	829,430	1,152,021
Time deposits, non-current portion	302,258	–	302,258	–
Financial assets at fair value through profit or loss – call options over non-controlling interests	28,519	10,606	28,519	10,606
Financial assets at fair value through profit or loss – wealth investment products	–	7,218	–	7,218
	1,175,568	1,210,391	1,175,568	1,210,391
Financial liabilities				
Derivative financial instruments	44,098	4,260	44,098	4,260
Interest-bearing bank loans and other borrowings	3,354,778	3,517,484	3,354,064	3,509,513
	3,398,876	3,521,744	3,398,162	3,513,773

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, time deposits, trade receivables, financial assets included in prepayments, other receivables, 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.

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

The finance manager of each subsidiary of the Group is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The Group's finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit ratings. Derivative financial instruments, i.e., forward currency contracts, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts are the same as their fair values.

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39. 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:

		Fair value measurement using		
	31 December 2022	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Derivative financial instruments	15,361	–	15,361	–
Financial assets at fair value through profit or loss – call options over non-controlling interests	28,519	–	–	28,519
	43,880	**–**	**15,361**	**28,519**

		Fair value measurement using		
	31 December 2021	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3
	(HK$'000)			
Derivative financial instruments	40,546	–	40,546	–
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
	58,370	**–**	**47,764**	**10,606**

39. 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:

	2022	2021
	(HK$'000)	
At 1 January	10,606	1,716
Remeasurement recognised in other income/(expenses)	18,443	9,407
Exchange realignment	(530)	(517)
At 31 December	**28,519**	**10,606**

During the year ended 31 December 2022, 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 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.

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

FAIR VALUE HIERARCHY (Continued)

Liabilities measured at fair values:

	31 December 2022	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	44,098	–	44,098	–
Interest-bearing bank loans and other borrowings	3,354,064	–	3,354,064	–
	3,398,162	**–**	**3,398,162**	**–**

	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	3,509,513	–	3,509,513	–
	3,513,773	**–**	**3,513,773**	**–**

40. 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 2022

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
		(HK$'000)	
Trade receivables	–	997,328	997,328
Financial assets included in prepayments and other receivables (note 21)	–	425,092	425,092
Financial assets at fair value through profit and loss	28,519	–	28,519
Due from related parties	–	2,503	2,503
Derivative financial instruments	15,361	–	15,361
Other long-term assets (note 18)	–	11,197	11,197
Pledged deposits	–	845,448	845,448
Time deposits	–	302,258	302,258
Cash and cash equivalents	–	921,961	921,961
	43,880	**3,505,787**	**3,549,667**

As at 31 December 2021

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
		(HK$'000)	
Trade 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 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**

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40. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

FINANCIAL LIABILITIES

As at 31 December 2022

	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)	–	204,819	204,819
Trade and bills payables	–	1,169,653	1,169,653
Interest-bearing bank loans and other borrowings	–	3,354,778	3,354,778
Lease liabilities	–	300,172	300,172
Derivative financial instruments	44,098	–	44,098
Due to related parties	–	730	730
	44,098	**5,030,152**	**5,074,250**

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
Lease liabilities	–	300,904	300,904
Derivative financial instruments	4,260	–	4,260
Due to related parties	–	604	604
	4,260	**5,701,193**	**5,705,453**

41. 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 2022	+5%/–5%	(6,895)/6,895
Year ended 31 December 2021	+5%/–5%	(4,530)/4,530

A reasonably possible change of 5% in the interest rates with all other variables held constant has no impact on the Group's equity other than retained earnings.

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31 DECEMBER 2022

41. 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).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

FOREIGN CURRENCY RISK (Continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax
	%	(HK$'000)
Year ended 31 December 2022		
If US$ strengthens against RMB	5%	9,027
If US$ weakens against RMB	(5%)	(9,027)
If EUR strengthens against RMB	5%	26,325
If EUR weakens against RMB	(5%)	(26,325)
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)

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 2022

41. 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 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	(HK$'000)				
Trade receivables*	–	–	–	997,328	997,328
Financial assets included in prepayments and other receivables					
– Normal**	308,540	–	–	–	308,540
Pledged deposits					
– Not yet past due	845,448	–	–	–	845,448
Time deposits					
– Not yet past due	302,258	–	–	–	302,258
Cash and cash equivalents					
– Not yet past due	921,961	–	–	–	921,961
	2,378,207	**–**	**–**	**997,328**	**3,375,535**

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK (Continued)

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 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**

* 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 2022

41. 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 2022

	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	–	256,688	1,026,847	2,230,724	–	3,514,259
Lease liabilities	–	29,161	88,616	204,776	–	322,553
Trade and bills payables	858,407	311,246	–	–	–	1,169,653
Derivative financial instruments	–	24,170	19,928	–	–	44,098
Due to related parties	730	–	–	–	–	730
Other payables	204,819	–	–	–	–	204,819
	1,063,956	**621,265**	**1,135,391**	**2,435,500**	**–**	**5,256,112**

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**

41. 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:

	2022	2021
	(HK$'000)	
Trade and bills payables	1,169,653	1,636,633
Other payables and accruals	784,438	905,027
Interest-bearing bank loans and other borrowings	3,354,778	3,517,484
Less: Monetary assets	2,069,667	2,256,106
Net debt	3,239,202	3,803,038
Equity attributable to owners of the parent	5,516,678	6,060,951
Less: Hedging reserve	(11,404)	11,394
Adjusted capital	5,528,082	6,049,557
Capital and net debt	**8,767,284**	**9,852,595**
Gearing ratio	**37%**	**39%**

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2022

42. 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:

	2022	2021
	(HK$'000)	
NON-CURRENT ASSETS		
Investments in subsidiaries	3,820,263	3,845,098
Total non-current assets	3,820,263	3,845,098
CURRENT ASSETS		
Other receivables	345	336
Due from subsidiaries	769,457	649,076
Cash and cash equivalents	6,534	6,035
Total current assets	776,336	655,447
CURRENT LIABILITIES		
Accrued expenses	71	–
Due to a subsidiary	1,627,849	1,448,219
Total current liabilities	1,627,920	1,448,219
NET CURRENT LIABILITIES	(851,584)	(792,772)
TOTAL ASSETS LESS CURRENT LIABILITIES	2,968,679	3,052,326
Net assets	**2,968,679**	**3,052,326**
EQUITY		
Share capital	16,680	16,680
Reserves (note)	2,951,999	3,035,646
Total equity	**2,968,679**	**3,052,326**

42. 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 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
Balance at 31 December 2021 and 1 January 2022	3,320,411	192,403	(477,168)	3,035,646
Loss for the year	–	–	(98,834)	(98,834)
Equity-settled share option arrangements	–	15,187	–	15,187
As at 31 December 2022	**3,320,411**	**207,590**	**(576,002)**	**2,951,999**

43. EVENTS AFTER THE REPORTING PERIOD

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

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2023.

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				
	2022	2021	2020	2019	2018
	(HK$'000)				
Results					
Revenue	8,292,152	9,692,137	8,304,967	8,777,142	8,629,115
Cost of sales	(4,936,271)	(5,696,909)	(4,636,930)	(4,996,484)	(4,967,782)
Gross profit	3,355,881	3,995,228	3,668,037	3,780,658	3,661,333
Other income and gains	165,429	80,800	90,048	74,116	98,303
Selling and distribution expenses	(2,072,449)	(2,476,241)	(2,131,438)	(2,274,966)	(2,208,873)
Administrative expenses	(1,345,590)	(1,426,458)	(1,145,615)	(1,170,329)	(1,207,135)
Other expenses	(2,437)	(7,266)	(50,972)	(19,544)	(16,803)
Operating Profit	100,834	166,063	430,060	389,935	326,825
Finance Income	42,971	35,074	5,956	4,543	3,867
Finance Costs	(137,906)	(90,594)	(114,068)	(141,856)	(123,576)
Share of profits and losses of a joint venture	(4,621)	1,277	(1,143)	339	407
Share of profits and losses of an associate	(85)	(8)	(105)	(131)	–
Profit before tax	1,193	111,812	320,700	252,830	207,523
Income tax credit/(expense)	38,935	15,749	(62,780)	(50,262)	(40,692)
Profit for the year	40,128	127,561	257,920	202,568	166,831
Attributable to:					
Owners of the parent	33,487	123,817	256,574	202,194	163,764
Non-controlling interests	6,641	3,744	1,346	374	3,067
	40,128	**127,561**	**257,920**	**202,568**	**166,831**

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2022	2021	2020	2019	2018
	(HK$'000)				
Total assets	11,714,695	13,171,712	11,868,787	10,876,962	10,618,485
Total liabilities	(6,157,042)	(7,074,208)	(6,087,218)	(5,790,828)	(5,655,379)
Non-controlling interests	(40,975)	(36,553)	(32,125)	(48,661)	(48,386)
	5,516,678	**6,060,951**	**5,749,444**	**5,037,473**	**4,914,720**

A Leading Juvenile Products Company

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