2011

Goodbaby International Holdings Limited
Stock Code: 1086
Annual Report

Contents

Corporate Information

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Song Zhenghuan
(Chairman & Chief Executive Officer)
Mr. Wang Haiye
(Vice President & Chief Operating Officer)

Non-Executive Directors

Mr. Christopher Marcus Gradel
Ms. Chiang Yun

Independent Non-Executive Directors

Mr. Iain Ferguson Bruce
Mr. Long Yongtu
Mr. Shi Xiaoguang

AUDIT COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Long Yongtu
Mr. Shi Xiaoguang

NOMINATION COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Long Yongtu
Mr. Shi Xiaoguang

REMUNERATION COMMITTEE

Mr. Iain Ferguson Bruce *(Chairman)*
Mr. Long Yongtu
Mr. Shi Xiaoguang

AUDITORS

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Certified Public Accountants
22nd Floor
CITIC Tower
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LEGAL ADVISOR

As to Hong Kong law

Sidley Austin

COMPLIANCE ADVISOR

Guotai Junan Capital Limited
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PRINCIPAL SHARE REGISTRAR

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Services Limited
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

COMPANY SECRETARY

Ms. Pau Lai Mei

AUTHORIZED REPRESENTATIVES

Mr. Song Zhenghuan
Ms. Pau Lai Mei

PRINCIPAL BANKER

Bank of China, Kunshan Branch

WEBSITE

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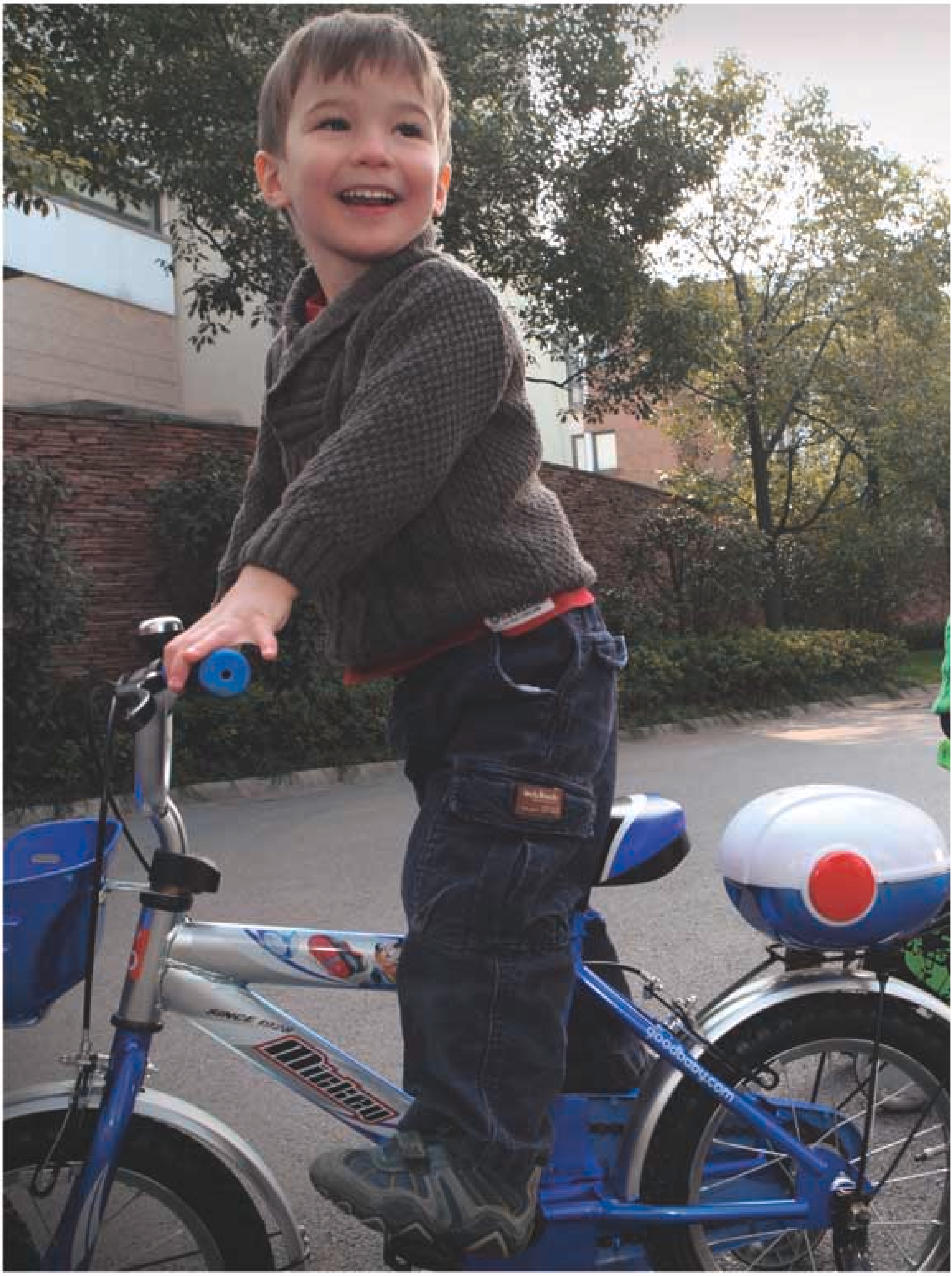
STOCK CODE

1086


goodbaby.com

Chairman's Statement

Mr Song Zhenghuan
Chairman

Dear Shareholders,

I wish to present, with gratitude, the following report on the developments of Goodbaby.

In 2011 and with care and support from shareholders, the Group achieved both growth in sales and corporate developments by leveraging on its excellent corporate culture and strong core competitiveness in a challenging market environment. In particular, rapid developments in the PRC market further consolidated the Group's position as market leader. Enhancement in the Group's integrated strengths achieved for ourselves both room and opportunities for accelerated developments.

With the deployment and formulation of the Group's in-depth distribution strategy, the rate of market permeation of our brand and products rose rapidly. Based on profound market insight, the Group formulated a "Channel Development of Secondary Cities to Towns and Grid Management" marketing strategy in the PRC market with detailed implementation plans with which we rolled out the most fundamental and extensive marketing battle. This enabled the Group to gain a fundamental strategic edge in capturing opportunities for long-term business growth in the juvenile durables market in China.

As regards our international markets, the Group further strengthened its operation initiatives through optimization of the operation management team. The Group also introduced a "strategies-oriented, markets-oriented and customers-oriented" business management model that further enhanced core competitiveness and diligently implemented the "OPM + OBM" business model [Note 1] and a "Rapid Growth" strategic objective. Significant progress made in our strategies of market diversification, product diversification and customer diversification while the Group's relationships with our core customers were further enhanced.

The Group's global innovation research system accelerated in both growth and development. The Group's 5 research centers located in the United States, Europe, Japan, Hong Kong and China respectively maintained close connections with our markets and customers and such integration of international and domestic resources facilitated the Group's further developments in its research capabilities in products originality, sustainability and scale. Such system also successfully

Note 1: Currently, there are 3 main streams of our revenue from overseas markets, which are: OBM ("Original Brand Manufacturer"), namely revenue from sales of own products of the Group; OPM ("Original Product Manufacturer"), namely revenue from sales of self-developed products under our clients' brands; and OEM ("Original Equipment Manufacturer"), namely revenue from sales of products developed by clients under clients' brands. Among which, the OBM and OPM models are the core models of the Group. We have developed our European and American markets with the OPM model while the OBM model as the core supplemented by the OPM model for other overseas markets.

extended our research capabilities in leading products to our various other juvenile durables. It is particularly encouraging to note that baby strollers designed by the Group once again reaped the most coveted and highly regarded Red Dot Design Award of Germany in 2011, reflecting the Group's excellence in world class research capabilities.

During the year, the Group also achieved enviable results in the areas of product standards examinations and tests. Currently, we are members of standards setting organizations in the EU, United States and Japan respectively and participate in the drafting, formulation and revision of products standards. The Group's laboratory has also become an institute for co-operation with internationally authoritative testing institutes such as SGS and TUV and is qualified to issue reports on relevant examinations and tests. In addition, the Consumer Product Safety Commission ("CPSC") in the United States has recognized the central laboratory of the Group as its accredited laboratory. It is noted that our laboratory is the sole corporate laboratory in the PRC with such accreditation.

In 2011, the Group stood the tests posed by the dual challenge of market shrinkage and increased cost in our management of the manufacturing and procurement supply chain. With enhanced management efforts and capabilities, the initiatives and creativity of the management team, technological innovations, improvements in management procedures and work efficiency, the Group was able to alleviate the cost pressure effectively and successfully maintained excellent product quality, high production rates and operating results.

Leveraging on the solid foundations above, 2011 saw continuingly increase in the Group's brand value and influence on the market, leaps and bounds development in brand promotions and sales, enhancements in corporate goodwill, solidarity and stability in our relationships with customers and integrated strengths which consolidated the Group's leading position in the industry chain. In 2011, the Group was honored with the " World Class Global Excellent Performance Award" by the Asia Pacific Quality Organization, witnessing the Group's all-round excellence in operations.

Looking forward, the Group will continue to implement its existing strategies and plans to create maximum benefits for shareholders and contribute to the development of the global juvenile durables industry. I am deeply aware of the heavy responsibilities and long long road ahead of me in this regard. My responsibility to shareholders remains my faith. To serve Goodbaby remains my lifelong mission. To build a world class first rate corporation remains my unwavering pursuit. I, together with my colleagues, will relentlessly devote our best endeavors to working towards achieving such goals and delivering such promises.

I look forward to your further guidance and support.

Yours sincerely,
Song Zhenghuan
Chairman

Goodbaby International Holdings Limited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Management Discussion & Analysis

OVERVIEW

For the financial year ended 31 December 2011, the Group recorded total revenue of approximately HK$3,941.7 million, representing an increase of approximately 5.9% from HK$3,721.9 million in 2010. Operating gross profit was approximately HK$673.7 million, representing a decrease of approximately 9.3% from HK$742.6 million in 2010. Profit for the year from continuing operations[Note 1] reached approximately HK$177.7 million, representing a decrease of approximately 12.5% from HK$203.2 million in 2010.

The slowdown in the growth in total revenue of the Group was mainly due to the decrease of approximately 11.4% in our revenue from North America[Note 2] as a result of the lower demand from one of major customer in the region. Our revenue derived from markets other than that of North America maintained double-digit growth, of which revenue from China[Note 2], European Market[Note 2] and Other Overseas Markets[Note 2] grew by approximately 20.5%, 10.1% and 17.1%, respectively. The decrease in both operating gross profit and net profit after tax of the Group was mainly due to the increase in the Company's expenses resulting from the rise in raw material prices, appreciation of Renminbi and increase in labor costs, which was partially offset by the increase in sales prices of our products and cost savings due to efficiency improvement.

In 2011, the Group steadily implemented its strategies, strengthened its market position and enhanced its corporate quality.

1. Our China market experienced exuberant development

1) As the household income and living standard of urban residents in China kept improving, the durable juvenile product market in China entered into a period of rapid development. Strollers are rapidly becoming a necessity for child-rearing families and there are increasing concerns from the public about traveling safety of children by taking car, contributing to the rapid and immense growth of the market of car safety seats for children. With the improving household conditions, household products for children have manifested its growth momentum. Leveraging on the strong position of the Group's brand in the China market, extensive geographic coverage and in-depth channel management, we were able to take the lead in the rapid development of the China market. In 2011, we experienced increase in our revenue from sales of strollers, revenue from sales of car safety seats and revenue from sales of other durable juvenile products (excluding ride-ons) in China by approximately 35.3%, 146.1% and 17.2%, respectively.

Note 1 All references to continuing operations in this report refer to our operations which are principally in the design, research and development, manufacture, marketing and sale of strollers, children's car safety seats, cribs, bicycles and tricycles, and other durable juvenile products. For more information regarding the discontinued operations, please refer to the prospectus of the Company dated 11 November 2010.

Note 2 For purposes of this report, all references to "European Market" mean countries in Europe to which we sell our products, which were Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and the U.K. "North America" means the United States and Canada, "Other Overseas Markets" mean overseas markets other than North America and European Market, including markets such as South America, Southeast Asia, Middle East, Japan, Russia and India. "China" means the People's Republic of China, excluding Taiwan, Hong Kong and Macao Special Administrative Region.

2) Our distribution management system continued to grow in maturity with the number of directly covered maternity and childcare specialty stores rising from 5,785 at the end of 2010 to 10,894 at the end of 2011, among which the number of maternity and childcare specialty stores of the Group has covered through in-depth distribution management system expanding from 4,725 at the end of 2010 to 7,000 at the end of 2011. During the year, we also deeply analyzed the distribution of maternity and childcare specialty stores in 24 provinces in China and looked into the vast majority of the retail outlets of the durable juvenile product market in the PRC, through which we collected valuable first-hand detailed information for our nation-wide exploration of the extremely diversified maternity and childcare specialty store channel.

3) The Group's brand position and market share was further improved. With strengthening branding strategies in 2011, growth rate of the Group's revenue from sales of products under the "好孩子 Goodbaby" brand in the China market significantly improved from approximately 4.9% in 2010 (compared with 2009) to approximately 26.0% in 2011 (compared with 2010). Revenue from sales of products under the "小龍哈彼 Happy Dino" brand, which has continued to stay ahead of the industry average, increased by approximately 16.8% (compared with 2010), and remained on a strong growth track.

2. Full development of overseas market

1) Effective diversified strategy

a) Product diversification: apart from the stroller operations, the Group was committed to the development of the car safety seat business and other durable juvenile product business. Revenue from sales of self-developed car safety seats increased substantially from approximately HK$33.5 million in 2010 to approximately HK$63.2 million in 2011, representing an increase of approximately 88.7%. Growth in revenue from sales of other durable juvenile products was recorded in all markets, in particular, revenue from the China market (excluding ride-ons), European Market and Other Overseas Markets increased by approximately 17.2%, 16.6% and 36.5%, respectively. Throughout the year, the Group launched 265 new items of car safety seats and other durable juvenile products and and 167 new products were under development. Although our revenue from North America decreased during the year, we made much progress on the improvement on product portfolios in response to the North America market. While our low-price products have occupied a significant position in the corresponding major retails channels, our new series of medium- to high-price products designed for the North America market have also launched through the corresponding major retails channels in the fourth quarter of 2011.

b) Market diversification: besides China, North America and European Market, the Group was also devoted to the development of its businesses in Other Overseas Markets. Despite the impacts of the severe earthquake in Japan, political turmoil in Middle East and North Africa as well as European sovereign debt crisis in Europe, all of which took place in 2011, we still achieved a double-digit growth of approximately 17.1% in Other Overseas Markets in 2011 as compared to 2010.

c) Customer diversification: during the European debt crisis, our diversified customer distribution in the European Market enabled the Group to take full advantage of its integrated strengths in the market. In 2011, the rapid growth in our revenue from other customers in the European Market effectively offset the slowdown of growth in revenue from one of major customer, resulting in an increase of approximately 10.1% in revenue from the European Market in 2011 as compared to 2010.

2) Growth of both OPM and OBM models

Despite the impact of a substantial decrease of approximately 11.4% in revenue from North America, we sustained satisfactory growth in the core businesses in overseas markets overall. Our revenue from OPM model increased by 4.2% and revenue from OBM model increased by approximately 11.3%.

a) Our OPM model was strengthened continuously. In 2011, our capability for independent development of "turnkey products" based on independent market research was steadily enhanced. There were 38 brand-new products launched into the market during the year and 95 brand-new products were under development as at the end of 2011. Our "emotion" series of products were honored with the Red Dot Design Award in 2010, following which, the E-pushchair Myotronic product of the Group won the same award again in March 2011, demonstrating the sustained recognition of our strengths in research and development ("R&D") by international organizations. Commencing from 2011, we shifted from customer-invested moulds investment in moulds by customers to own-invested moulds. For the year ended 31 December 2011, we invested in a total of 41 moulds of this kind, substantially strengthening our bargaining power in the value chain.

b) Our OBM model was systematically implemented in 2011, for which we successively initiated promotion of our own brands in other major overseas markets. We participated in a number of industry exhibitions held in Hong Kong, Ukraine, Japan, Russia and Seoul, respectively, to promote our own brands and was well received by the markets with improved brand awareness in Other Overseas Markets. Upon the establishment of our overseas market brand centre in 2010, we engaged Mr. Gregory E. Mansker, a senior seasoned marketing expert within our industry, in October 2011 as our chief executive officer for the overseas markets. We believe that his appointment will strengthen our team, facilitate the implementation of our "strategy-oriented, market-oriented and customer-oriented" strategy for overseas markets and strengthen our capability in brand promotion in Other Overseas Markets supplemented by the OPM model.

3. Our core capability continued to improve

1) Our leading R&D capability continued to develop in 2011. During the year, the Group launched a total of 486 new products, representing an increase of 28 products from 458 products in 2010. At the end of 2011, 293 new products were under development, an increase of 49 as compared to 2010. Continued launch of a large amount of new products strongly supported our all-round expansion in all markets.

2) In 2011, we continued to improve the efficiency of our production lines and upgraded our manufacturing technology. Supporting an overall growth of approximately 3.7% in sales revenue of the Group's inhouse produced products, the annual month-end average headcount of our production lines decreased by approximately 18.7% from 15,850 in 2010 to 12,888 in 2011, effectively alleviating the cost pressure brought about by the increase in unit labor costs.

3) Expansion of our outsourcing operations continued in 2011. Finished products manufactured by way of outsourcing as a percentage of total products increased from approximately 15.2% in 2010 to approximately 17.5% in 2011, and accessories manufactured by way of outsourcing as a percentage of total products increased from approximately 43.3% in 2010 to approximately 45.0% in 2011, illustrating further development in the Group's integration of extensive manufacturing resources in China capitalizing on its leading capability in the industry.

In 2011, the Group was granted the "World Class Global Performance Excellence Award (Highest Honor)" by the Asia Pacific Quality Organization, signifying that the Group has reached an international advanced level in its excellent performance management system established with long-term commitment.

4. Our bargaining power in the industry was substantially strengthened

1) Following invitations from two internationally authoritative testing institutions, namely, SGS (Societe Generale de Surveillance S.A.) and TUV Nord Group in 2011 to collaborate with them as a co-operative laboratory, the Group´s laboratory was accredited as a recognized laboratory by Consumer Product Safety Committee ("CPSC") of the United States in February 2012. It is noted that our laboratory is the only corporate laboratory in China that has been accredited by CPSC.

2) Since becoming a member of American Society for Testing and Materials, Comite European de Normalisation and the Consumer Products Safety Association of Japan respectively in 2011, the Group has participated in developing and revising 31 American standards, 1 European standard and 1 Japanese standard.

3) In July 2011, the Group released its "EQO" series of products at the 11th China Baby and Maternity Exhibition and was granted the silver certification by the C2C certification center, which marked the Group's initiative in introducing the human race's pursuit of the "Cradle to Cradle" ("C2C") concept of carbon-free and recycling to the global durable juvenile products . The Group has spent more than 3 years in the application research of the C2C concept. Our persistent commitment and development in this area will certainly enable the Company to strive for commanding heights in the industry and drive the development of the global durable juvenile product industry to a new level.

Looking forward, we are fully confident in the face of persistent challenges. We will continue to increase our investment in the China market, strengthen our brand position, thoroughly implement in-depth distribution, so as to further facilitate the penetration rate of our brand and products and capture the tremendous business opportunities generated by the explosive growth in the durable juvenile product market in China. In overseas markets, we will further enhance our capability of market research and product innovation and aggressively develop our OPM business model focusing on "turnkey product". Meanwhile, we will intensify promotion of our own brand and strengthen our capability in marketing management in Other Overseas Markets, consolidate and develop our OBM model focusing on our own brand. We will continue to implement the strategy of product diversification, market diversification and customer diversification, and capture our market share in the global durable juvenile product industry in order to realize the rapid, sustained and stable growth of the Group. We will continue to enhance our core manufacturing technology and production efficiency as well as strengthen our supply chain management capability. By capitalizing on our leading capability in manufacturing management, we intend to integrate the manufacturing resources throughout China to lower costs, upgrade our quality and taste, serve the global market and create added value for advanced manufacturing technology and supply chain integration.

FINANCIAL REVIEW — CONTINUING OPERATIONS

Revenue

Our total revenue increased by approximately 5.9% from approximately HK$ 3,721.9 million for the year ended 31 December 2010 to approximately HK$3,941.7 million for the year ended 31 December 2011. Geographically, this increase is attributable to the increase in revenue from China, European Market and Other Overseas Markets, partially offset by the decrease in revenue from North America. In terms of product category, this increase is attributable to the increase in revenue from strollers and accessories and other durable juvenile products, partially offset by the decrease in revenue from car safety seats and accessories.

Revenue by Geographical Region

The table below sets out our revenue by geographical region for the periods indicated.

	For the year ended 31 December				Growth analysis 2011 vs 2010
	2011		2010		
	Sales (HK$ million)	**% of sales**	Sales (HK$ million)	% of sales	Growth
European Market	**1,222.8**	**31.0%**	1,111.0	29.9%	10.1%
North America	**1,140.8**	**28.9%**	1,287.6	34.6%	-11.4%
China	**1,000.8**	**25.4%**	830.4	22.3%	20.5%
Other Overseas Markets	**577.3**	**14.7%**	492.9	13.2%	17.1%
Total	**3,941.7**	**100.0%**	3,721.9	100.0%	5.9%

Revenue from European Market increased by approximately 10.1% to approximately HK$1,222.8 million for the year ended 31 December 2011 from approximately HK$1,111.0 million for the year ended 31 December 2010. This increase was attributable to the overall increase in revenue of all product lines.

Revenue from North America decreased by approximately 11.4% to approximately HK$1,140.8 million for the year ended 31 December 2011 from approximately HK$1,287.6 million for the year ended 31 December 2010. This decrease was attributable to the decrease in revenue from strollers and accessories and car safety seats and accessories.

Revenue from China increased by approximately 20.5% to approximately HK$1,000.8 million for the year ended 31 December 2011 from approximately HK$830.4 million for the year ended 31 December 2010. This increase was attributable to the overall increase in revenue of all product lines.

Revenue from Other Overseas Markets increased by approximately 17.1% to approximately HK$577.3 million for the year ended 31 December 2011 from approximately HK$492.9 million for the year ended 31 December 2010. This increase was attributable to the increase in revenue from strollers and other product lines.

Revenue by Products

The table below sets out our revenue by product lines for the periods indicated.

	For the year ended 31 December				Growth analysis 2011 vs 2010
	2011		2010		
	Sales (HK$ million)	**% of sales**	Sales (HK$ million)	% of sales	Growth
Strollers and accessories	**1,933.6**	**49.1%**	1,825.3	49.1%	5.9%
Car safety seats and accessories	**421.5**	**10.7%**	473.6	12.7%	-11.0%
Other durable juvenile products	**1,586.6**	**40.2%**	1,423.0	38.2%	11.5%
Total	**3,941.7**	**100.0%**	3,721.9	100.0%	5.9%

Revenue from strollers and accessories increased by approximately 5.9% to approximately HK$1,933.6 million for the year ended 31 December 2011 from approximately HK$1,825.3 million for the year ended 31 December 2010. This increase was attributable to the increase in revenue from China market, European market and Other Overseas Markets, partially offset by the decrease in revenue from North America market.

Revenue from car safety seats and accessories decreased by approximately 11.0% to approximately HK$421.5 million for the year ended 31 December 2011 from approximately HK$473.6 million for the year ended 31 December 2010. This decrease was attributable to the decrease in revenue from North America as a result of the shift of some orders to internal production by one of the Company's major customers, partially offset by the increase in revenue from European Market and China. Although the Group's total revenue from car safety seats and accessories decreased, revenue from the self-developed car safety seats of the Group increased significantly by approximately 88.7% to approximately HK$63.2 million in 2011 from approximately HK$33.5 million in 2010.

Revenue from other durable juvenile products increased by approximately 11.5% to approximately HK$1,586.6 million for the year ended 31 December 2011 from approximately HK$1,423.0 million for the year ended 31 December 2010. This increase was attributable to the overall increase in revenue of all geographical regions.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by approximately 9.7% from approximately HK$2,979.3 million for the year ended 31 December 2010 to approximately HK$3,268.0 million for the year ended 31 December 2011. This increase was primarily due to the increase in labor costs and raw material prices and the appreciation of Renminbi. As a percentage of sales, the cost of sales increased from approximately 80.0% for the year ended 31 December 2010 to approximately 82.9% for the year ended 31 December 2011.

Our gross profit decreased by approximately 9.3% from approximately HK$742.6 million for the year ended 31 December 2010 to approximately HK$673.7 million for the same period in 2011. Our gross profit margin decreased from approximately 20.0% for the year ended 31 December 2010 to approximately 17.1% for the year ended 31 December 2011. The decrease in gross profit and gross profit margin was mainly due to the increase in cost of sales, partially offset by the increase in unit sales price of the Group's products and the improvement in production efficiency.

Overseas Markets

For our overseas markets, our gross profit margin decreased from approximately 18.8% for the year ended 31 December 2010 to approximately 14.7% for the same period in 2011. This was primarily attributable to the increase in labor costs and raw material prices and the appreciation of Renminbi, partially offset by the increase in unit sales price of the Group's products and the improvement in production efficiency. In addition, the Company entered into a forward contract in relation to the U.S. dollars receivables from overseas sales for the current year in 2011 to alleviate the impact of appreciation of Renminbi on the gross profit. Revenue in this respect, amounting to approximately HK$33.6 million, was included in "other income and gains", accounted for approximately 1.1% of the revenue from overseas markets for 2011, and partially offset the effect of appreciation of Renminbi on gross profit margin.

China

In China, the gross profit margin for the years ended 31 December 2010 and 2011 remained relatively stable. The impact due to the increase in labor costs and raw material prices on the gross profit margin was fully offset by the increase in sales price of the Company's products and the improvement in production efficiency.

Other Income and Gains

Our other income increased by approximately 222.5% or approximately HK$73.2 million from approximately HK$32.9 million for the year ended 31 December 2010 to approximately HK$106.1 million for the year ended 31 December 2011. This increase was mainly attributable to the gain on forward exchange contract, translation gain on overseas Renminbi deposits and the increase in government subsidies.

Selling and Distribution Costs

Our selling and distribution costs primarily consist of promotion, salary and transportation expenses.

Our selling and distribution costs increased by approximately 10.3% to approximately HK$271.3 million for the year ended 31 December 2011 from approximately HK$246.0 million for the year ended 31 December 2010. The increase in selling and distribution costs was primarily as a result of an increase of salary expenses, office expenses and promotion expenses. As a percentage of sales, selling and distribution costs increased to approximately 6.9% for the year ended 31 December 2011 from approximately 6.6% for the year ended 31 December 2010.

Administrative Expenses

Our administrative expenses primarily consist of salary, research and development, and professional expenses.

Our administrative expenses increased from approximately HK$245.5 million for the year ended 31 December 2010 to approximately HK$301.1 million for the year ended 31 December 2011. The increase was primarily a result of the increase of salary expenses, research and development expenses and office expenses, partially offset by the decrease in professional expenses.

Other Expenses

Our other expenses for the year ended 31 December 2011 was approximately HK$5.7 million as compared to approximately HK$20.6 million for the same period in 2010, mainly due to decrease in exchange losses.

Operating Profit

As a result of the foregoing, our operating profit decreased by approximately 23.4% to approximately HK$201.7 million for the year ended 31 December 2011 from approximately HK$263.3 million for the year ended 31 December 2010.

Finance Income

Our finance income increased by approximately 208.3% to approximately HK$3.7 million for the year ended 31 December 2011 from approximately HK$1.2 million for the year ended 31 December 2010. This increase was mainly due to the increase in interest on Renminbi deposits.

Finance Costs

Our finance costs decreased by approximately 36.6% to approximately HK$11.6 million for the year ended 31 December 2011 from approximately HK$18.3 million for the year ended 31 December 2010. This decrease was primarily due to the decrease in loan balances and the restructuring of loans.

Profit Before Tax

As a result of the foregoing, our profit before tax from our continuing operations (representing the sum of gross profit, other income, administrative expenses, selling and distribution costs, other expenses, finance costs and finance income) decreased by approximately 21.3% from approximately HK$246.1 million for the year ended 31 December 2010 to approximately HK$193.8 million for the year ended 31 December 2011.

Income Tax Expense

Our income tax expense decreased by approximately 62.5% from approximately HK$42.9 million for the year ended 31 December 2010 to approximately HK$16.1 million for the year ended 31 December 2011. Meanwhile, our effective tax rate decreased to 8.3% for the year ended 31 December 2011 from 17.4% for the year ended 31 December 2010, primarily as a result of (i) a decrease in the amount of tax paid due to the decrease in taxable profit; (ii) a decrease in income tax expense due to the adjustment on a declared but not yet paid profit appropriation by an indirect wholly-owned domestic subsidiary of the Company to a Hong Kong incorporated and wholly-owned subsidiary of the Company; (iii) additional tax benefit due to an increase in research and development expenses for the year ended 31 December 2011.

Profit for the Year

Our profit for the year ended 31 December 2011 was approximately HK$177.7 million, representing a decrease of approximately 12.5% over the profit of approximately HK$203.2 million for the year ended 31 December 2010.

Working Capital and Financial Resources

	As at 31 December 2011 (HK$ million)	As at 31 December 2010 (HK$ million)
Trade receivables	**616.1**	493.7
Trade and notes payables	**857.3**	685.2
Inventories	**676.8**	571.3
Trade receivables turnover days	**51**	53
Trade and notes payables turnover days	**86**	89
Inventories turnover days	**70**	85

Trade receivables balance increased by approximately HK$122.4 million from approximately HK$493.7 million as at 31 December 2010 to approximately HK$616.1 million as at 31 December 2011, mainly due to the increase in revenue from external sales in November and December 2011 compared with that of the same period last year.

Trade and notes payables balance increased by approximately HK$172.1 million from approximately HK$685.2 million as at 31 December 2010 to approximately HK$857.3 million as at 31 December 2011, primarily due to reserve procurement of raw materials by the Group when prices were lower at the end of 2011.

Inventories balance increased by approximately HK$105.5 million from approximately HK$571.3 million as at 31 December 2010 to approximately HK$676.8 million as at 31 December 2011, primarily due to (i) reserve procurement of raw materials by the Group when prices were lower at the end of 2011; (ii) the increase in inventories of moulds as a result of the investment in and development of moulds by the Group in 2011 for strengthening its OPM model; (iii) the reserve of inventories for the Spring Festival and post-festival wholesales fair in different provinces.

Liquidity and Financial Resources

The Group generally finances its operations and future plans with cash flows generated internally by operating activities and banking facilities.

As at 31 December 2011, the Group's cash and cash equivalent were approximately HK$788.4 million (2010: approximately HK$1,024.7million).

As at 31 December 2011, the Group's interest-bearing bank borrowings were approximately HK$326.5 million (2010: approximately HK$472.4 million). Out of these amounts, approximately HK$55.5 million (2010: approximately HK$242.1 million) are denominated in Renminbi, and approximately HK$271.0 million (2010: approximately HK$230.3 million) are denominated in U.S. dollars.

Contingent Liabilities

As at 31 December 2011, the Group had no material contingent liabilities.

Exchange Rate Fluctuations

Our sales are mainly denominated in U.S. dollars and Renminbi. Our cost of sales and operating expenses are mainly denominated in Renminbi. Approximately 74.6% of our revenue for the year ended 31 December 2011 was denominated in U.S. dollars. Renminbi appreciated approximately 5.1% against the U.S. dollars for the year ended 31 December 2011. Our profit margins will be adversely affected if we were unable to increase the U.S.-dollar selling prices of the products we sold to our overseas customers for offsetting any appreciation of Renminbi against the U.S. dollars.

During the year ended 31 December 2011, the Group entered into forward exchange contracts denominated in U.S. dollars in order to manage its risk exposure.

Pledge of Assets

As at 31 December 2011, some of the Group's interest-bearing bank borrowings were pledged by intra-group trade receivables of approximately HK$256.8 million (2010: approximately HK$167.2 million), and such trade receivables had been eliminated upon consolidation.

Gearing

As at 31 December 2011, the Group's gearing ratio (calculated as net liabilities divided by the sum of the equity attributable to owners of the parent and net liabilities; net liabilities is calculated as the sum of trade and notes payables, other payables, advances from customers and accruals, interest-bearing bank borrowings (current and non-current) and amounts due to related parties minus cash and cash equivalent) was approximately 27.3% (2010: approximately 20.9%).

Directors & Senior Management

DIRECTORS

Executive Directors

SONG Zhenghuan（宋鄭還）, *aged 63*, is an executive Director, chairman of our Company, chief executive officer and the founder of our Group. With more than 21 years of experience in the juvenile products industry, Mr. Song is primarily responsible for our Group's overall strategic planning and management of our 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 our 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. Concurrently, between 1989 and 1993, Mr. Song was also in charge of a factory run by Lujia Middle School as encouraged by the then PRC governmental policy, which was the predecessor of Goodbaby Group Co., Ltd., our major founding shareholder. In 1989, Mr. Song invented the first "push and rock" stroller and subsequently founded Goodbaby Group Co., Ltd. to engage in the design, manufacture and marketing of strollers under the "好孩子 Goodbaby" brand in China. In 1990, our Group was granted a 10-year patent in China for "push and rock" stroller invented by Mr. Song.

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 2007. In 2008, 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 and thus far is the only recipient of such award.

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

(i) Goodbaby Child Products Co., Ltd. (好孩子兒童用品有限公司);

(ii) Ningbo Goodbaby Child Products Co., Ltd. (寧波好孩子兒童用品有限公司);

(iii) Paragon Child Products Co., Ltd. (昆山百瑞康兒童用品有限公司);

(iv) Goodbaby Children's Products, Inc.;

(v) Goodbaby (Hong Kong) Limited;

(vi) Goodbaby Japan Co., Ltd.;

(vii) Pacific United Developments Limited;

(viii) Turn Key Design B.V.; and

(ix) Turn Key Design Cooperatie U.A..

WANG Haiye（王海燁）, *aged 46*, is our vice president and was appointed as our executive Director on 19 August 2010 and as our chief operating officer on 18 March 2011. Mr. Wang is primarily responsible for the oversight of international sales and production of our products. Mr. Wang joined our Group in 1992 and has over 19 years of experience in manufacturing juvenile products. Mr. Wang was appointed as our manager for the operations management department in 1995, responsible for establishing and improving the Company's operations management system. Mr. Wang was appointed as the Company's vice president in 1999, overseeing the Company's manufacturing operations, including production, purchasing, quality control and outsourcing. During his appointment, Mr. Wang initiated and established the Company's manufacturing resources planning system, which was subsequently upgraded to the ERP system in 2008. Under Mr. Wang's leadership and initiatives, we effectively expanded our production capabilities, which supported a sustainable growth in sales. Mr. Wang graduated from Xiamen University in 1989 with a Bachelor's degree in management statistics.

Mr. Wang is currently a director of the following subsidiaries of our Group:

(i) Goodbaby Child Products Co., Ltd. (好孩子兒童用品有限公司);

(ii) Paragon Child Products Co., Ltd. (昆山百瑞康兒童用品有限公司);

(iii) Goodbaby Child Products Ping Xiang Co., Ltd.* (好孩子兒童用品平鄉有限公司); and

(iv) Goodbaby (Hong Kong) Limited.

Mr. Wang is also a director of Pacific United Developments Limited ("PUD"), a substantial shareholder of the Company, and an indirect shareholder of PUD through Powergain Global Limited.

* For identification purpose only

Non-Executive Directors

Christopher Marcus GRADEL, *aged 41*, has been a Director since January 2006 and was re-designated as a non-executive Director in November 2007 to reflect his actual role in the Company as he was not and is not involved in the day to day management and operation of the Company. Mr. Gradel is a board representative of CRF Enterprise Limited and is not involved in the day-to-day operations of the Company. In July 2002, Mr. Gradel co-founded Pacific Alliance Investment Management Limited and currently serves as the managing partner of Pacific Alliance Investment Management Limited and Pacific Alliance Group Limited. Before founding Pacific Alliance Investment Management Limited, Mr. Gradel worked as an engagement manager at McKinsey & Company, Hong Kong from 1999 to 2002. Mr. Gradel also worked at The Marmon Group, China from October 1994 to October 1998. Mr. Gradel received a joint Master's degree in engineering, economics and management from the University of Oxford in 1994.

Mr. Gradel is currently a director of the following subsidiaries of the Company:-

(i) Goodbaby Child Products Co., Ltd. (好孩子兒童用品有限公司);
(ii) Ningbo Goodbaby Child Products Co., Ltd. (寧波好孩子兒童用品有限公司);
(iii) Paragon Child Products Co., Ltd. (昆山百瑞康兒童用品有限公司);
(iv) Kunshan Goodbaby Tommee Tippee Child Products Co., Ltd. (昆山好孩子湯美天地嬰兒用品有限公司);
(v) Goodbaby Children's Products, Inc.;
(vi) Goodbaby Japan Co., Ltd.;
(vii) Turn Key Design B.V.; and
(viii) Turn Key Design Cooperatie U.A..

Mr. Christopher Marcus Gradel is also a non-executive director of Africa Opportunity Fund Limited (listed on the AIM market of the London Stock Exchange plc), ARC Capital Holdings Limited (listed on the AIM market of the London Stock Exchange plc), Pacific Alliance Asia Opportunity Fund Limited (listed on the AIM market of the London Stock Exchange plc).

CHIANG Yun（張昀）, *aged 44,* has been a Director of the Company since July 2000 and was re-designated as a non-executive Director in November 2007 to reflect her actual role in the Company as she was not and is not involved in the day to day management and operation of the Company. Ms. Chiang has over 18 years of private equity investment experience in Asia. Ms. Chiang is a founding managing partner of Pacific Alliance Equity Partners Limited and ARC Capital Partners Limited, the private equity division of Pacific Alliance Group. ARC Capital Partners Limited is the investment manager of ARC Capital Holdings Limited, an AIM-listed private equity fund launched in June 2006. Prior to the founding of Pacific Alliance Equity Partners Limited and ARC Capital Partners Limited, Ms. Chiang was a Vice President of AIG Global Investment. Ms. Chiang is also an independent non-executive director of Sands China Ltd., which is a company listed on the Stock Exchange. Ms. Chiang received her Degree of Executive Master of Business Administration from The Kellogg Graduate School of Management of Northwestern 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.

Ms. Chiang is currently a director of the following subsidiaries of the Company:-

(i) Goodbaby Child Products Co., Ltd. (好孩子兒童用品有限公司);

(ii) Ningbo Goodbaby Child Products Co., Ltd. (寧波好孩子兒童用品有限公司);

(iii) Paragon Child Products Co., Ltd. (昆山百瑞康兒童用品有限公司);

(iv) Kunshan Goodbaby Tommee Tippee Child Products Co., Ltd. (昆山好孩子湯美天地嬰兒用品有限公司);

(v) Goodbaby Children's Products, Inc.;

(vi) Goodbaby Japan Co., Ltd.;

(vii) Turn Key Design B.V.;

(viii) Turn Key Design Cooperatie U.A.; and

(ix) Goodbaby (Hong Kong) Limited.

Independent Non-Executive Directors

LONG Yongtu（**龍永圖**）, *aged 68*, was appointed as our independent non-executive Director on 5 November 2010. Mr. Long has been a member of the advisory committee of Boao Forum for Asia since July 2010, a non-profit organization committed to promoting economic integration among Asian countries. From 2003 to 2010, Mr. Long was the secretary-general of Boao Forum for Asia. Mr. Long held several positions with the PRC Ministry of Foreign Trade and Economic Cooperation (MOFTEC) from 1992 to 2003, including director-general of the Department of International Relations and Vice Minister and the Chief Representative for Trade Negotiations. During his tenure at MOFTEC, Mr. Long led the negotiations for China's accession to the World Trade Organization. Mr. Long has also served as deputy director-general at China International Center for Economic and Technical Exchanges (CICETE) from 1986 to 1992 and a diplomat in the United Nations from 1978 to 1986. Mr. Long was an independent non-executive director of China Life Insurance Company Limited from December 2003 to May 2009 and an independent non-executive director of Alibaba.com Limited from October 2007 to May 2009, both of which are listed on the Stock Exchange. Mr. Long is currently Dean of the School of International Relations and Public Affairs at Fudan University, holds a Bachelor's degree in British and American literature from Guizhou University from which he graduated in 1965 and an honorary degree of Doctor of Science (Economics) from the London School of Economics and Political Science which he received in 2006.

Iain Ferguson BRUCE, *aged 71*, was appointed as our independent non-executive Director on 5 November 2010. Mr. Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the senior partner of KPMG from 1991 until his retirement in 1996 and served as chairman of KPMG Asia Pacific from 1993 to 1997. He has been a member of the Institute of Chartered Accountants of Scotland since 1964 and is a fellow of the Hong Kong Institute of Certified Public Accountants. He is also a fellow of The Hong Kong Institute of Directors and a member of The Hong Kong Securities Institute.

Mr. Bruce is currently a director of the following listed companies:

- independent non-executive director of Paul Y. Engineering Group Limited, a company listed on the Stock Exchange;
- independent non-executive director of Tencent Holdings Limited, a company listed on the Stock Exchange;
- independent non-executive director of Vitasoy International Holdings Limited, a company listed on the Stock Exchange;

- independent non-executive director of Wing On Company International Limited, a company listed on the Stock Exchange;
- independent non-executive director of Sands China Ltd., a company listed on the Stock Exchange;
- non-executive director of Noble Group Limited, a company listed on the Singapore Exchange Limited;
- non-executive director of China Medical Technologies, Inc., a company listed on NASDAQ; and
- non-executive director of Yingli Green Energy Holding Company Limited, a company listed on the New York Stock Exchange.

Mr. Bruce is an independent non-executive director of Citibank (Hong Kong) Limited and is the Chairman of KCS Limited. Mr. Bruce has over 46 years of experience in the accounting profession and possesses the accounting and related financial management expertise required under rule 3.10(2) of the Listing Rules.

SHI Xiaoguang（石曉光）, *aged 65*, was appointed as our independent non-executive Director on 5 November 2010. In January 2012, Mr. Shi became the member of the Governance Board of the ICTI CARE Foundation. Mr. Shi has been 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 scope of the responsibilities of China Toy & Juvenile Products Association spans from recommending the safety standards and/or regulations of durable juvenile products which the Group designs and manufactures to recommending the safety standards and/or regulations of other general toys and related products in the industry. Mr. Shi graduated from

Beijing University of Chemical Technology（北京化工大學）(formerly known as Beijing College of Chemical Technology （北京化工學院）) with a Bachelor's degree in chemical apparatus and engineering in July 1974. Mr. Shi served as the vice-chairman of the department of general administration of The Ministry of Science and Technology from 1985 to 1987. He became a certified engineer in the PRC in September 1987, as granted by the State Scientific and Technological Commission（國家科學技術委員會）. From November 1987 to November 1990, he served as the deputy general of China National Scientific Instruments and Materials Corporation（中國科學器材公司）. Mr. Shi was appointed as the chairman of the service centre of The Ministry of Light Industry in 1989. From 1993 to 2007, he served as the general manager of China National Arts & Crafts (Group) Corporation（中國工藝美術集團公司）(formerly known as China National Arts & Crafts Corporation（中國工藝美術總公司）).

LIU Tongyou（劉同友）, *aged 44*, is our vice president and the chief financial officer primarily responsible for the legal and corporate finance affairs and investor relationship of the Group. Mr. Liu joined our Group in 1995 and has over 17 years of experience in the children's products industry. Mr. Liu graduated from Tianjin University of Finance & Economics（天津財經大學）with a Master's degree in economics in 1992. From March 1993 to July 1995, Mr. Liu served as a director of Beijing Standard Consultancy Company（北京標準諮詢公司）responsible for consulting on the restructuring and listing of a number of companies established in the PRC including Hainan Airlines Company Limited（海南航空股份有限公司), a company listed on the Shanghai Stock Exchange. Since October 2008, Mr. Liu has been a part-time professor of the Business School of Tianjin University of Finance & Commerce（天津財經大學商學院）.

QU Michael Nan（曲南）, *aged 44*, is our vice president primarily responsible for managing key overseas accounts and strategic overseas resources of the Group. Mr. Qu joined our Group in 1994 and was responsible for establishing Goodbaby Children's Products, Inc. in the United States, and has since been managing the North American business. Mr. Qu also manages our relationship with our customers in Europe. In 2007, Mr. Qu participated in the team formation and establishment of the Company's R&D centers in Utrecht, the Netherlands and Boston, United States. Mr. Qu has been overseeing the operations of both R&D centers since their commencement. Mr. Qu studied economics in Peking University from 1986 to 1989, then went to the United States to study business administration at George Mason University from 1989 to 1992.

Gregory E. Mansker, aged 55, is our chief executive officer of overseas markets, primarily responsible for strategic marketing and business development. Mr. Mansker joined our Group in October 2011 and has over 25 years' experience in international business development, offshore sourcing and mergers and acquisitions. Mr. Mansker was staff counsel of Graco Children's Products, Inc. from 1981 to 1983 and staff counsel for Ferranti International plc USA divisions from 1983 to 1989. He served as the vice president of the international division and the vice president of global marketing of the Graco Division of Newell Rubbermaid from 1989 to 1998 and from 1998 to 2001, respectively. From 2001 to 2002, Mr. Mansker was a management consultant at CF Capital Group. He then served as the chief executive officer of Chicco USA, Inc. (division of Artsana S.P.A.) from 2003 to 2009 and the chief executive officer of Iron Mountains LLC. from 2009 to 2011. Mr. Mansker received his bachelor's degree in pre-law from Bob Jones University in 1978 and his juris doctor degree from Villanova University in 1981. Mr. Mansker is admitted to practice law in the states of Pennsylvania and New York in the United States. He was a board member of the JPMA trade association from 2000 to 2002 and 2005 to 2011, and the board chairman in 2009. He is currently a board member of First Candle, a national nonprofit health organization in the United States.

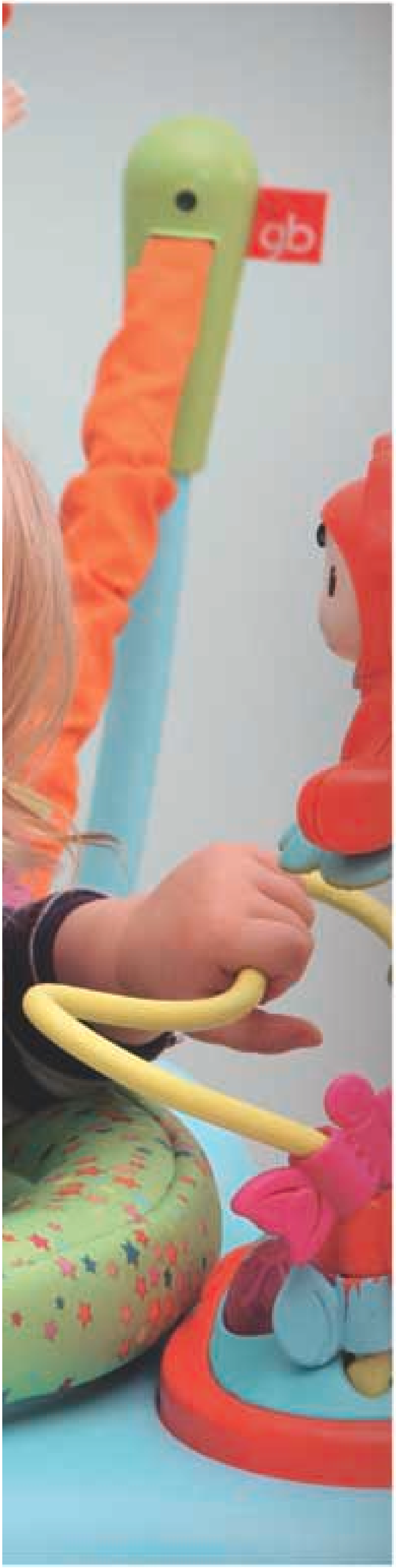
HE Xinjun（賀新軍）, *aged 52*, is our vice president primarily responsible for the market research, product development and design of our products. Mr. He joined our Group in 1995 as a design engineer and has over ten years of experience in designing juvenile products. Mr. He graduated from Gansu Radio and Television University（甘肅廣播電視大學）majoring in mechanical engineering.

ZHU Yunlong（竺雲龍）, *aged 44*, is our vice president primarily responsible for overseeing all quality control and functions of our Group. Mr. Zhu joined our Group in 2006. Prior to joining our Group, Mr. Zhu was the regional quality director of Electra Consumer Products. Mr. Zhu has also worked as a quality director for Concord Camera (HK) Limited. Mr. Zhu graduated from Southern Illinois University and obtained his Doctorate of Business Administration (DBA) and Master's degree in Business Administration. Mr. Zhu has been serving as the vice-chairman of Kunshan Quality Association（昆山質量協會）and the director of Shanghai Quality Association（上海質量協會）since March 2008. He has been appointed as a director of the expert team of the Technical Committee of Standardization for Toys by China Toy & Juvenile Products Association since June 2008. Mr. Zhu received "Kunshan Senior Level Innovation and Entrepreneur Talent Award"（昆山市高層次創新創業人才獎). He is also a member of this fouth "333 Senior Level Talent Nurture Engineering" of Jiangsu Province"（江蘇省第四期「333高層次人才培養工程」培養對象）.

COMPANY SECRETARY

LI Chun（李春）, *aged 49*, is our vice president primarily responsible for human resources of our Group. Mr. Li joined our Group in 2005 and prior to joining our Group, Mr. Li was the human resources and administrative director of Trane China Distribution. Mr. Li has also worked as the human resources and administrative director for Pillsbury China Limited. Mr. Li graduated from East China Normal University in Shanghai with a Bachelor's degree in psychology.

PAU Lai Mei（鮑麗薇）, *aged 52*, is the company secretary of our Company and was appointed on 5 November 2010. Ms. Pau has been with the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services since 2004. Her current position is director – corporate services. Ms. Pau is a Chartered Secretary and a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She is also the joint company secretary of Baoxin Auto Group Limited (Stock Code: 1293), a company whose shares are listed on the Stock Exchange. She has more than 25 years of working experience in the field of corporate secretarial services.



Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report for the year ended 31 December 2011.

The manner in which the principles and code provisions in the Code on Corporate Governance Practices (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 is explained in the following sections of this corporate governance report:

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the CG Code contained in Appendix 14 of the Listing Rules.

Throughout the year from 1 January 2011 to 31 December 2011, in the opinion of the Directors, the Company has complied with all the code provisions and certain recommended best practices as set out in the CG Code, save for the deviation from code provision A.2.1, which deviation is explained in the relevant paragraph of this report.

The Company has also put in place certain recommended best practices as set out in the CG Code.

The Company reviews its corporate governance practices regularly to ensure compliance with 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.

THE BOARD

RESPONSIBILITIES

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the chief executive officer, 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.

All directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

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.

BOARD COMPOSITION

The Board currently comprises seven members, consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors.

The Company has adopted the recommended best practice under the CG Code for the Board to have at least one-third of its membership comprising independent non-executive Directors.

The list of all Directors, which also specifies the posts, e.g. of chairman and chief executive officer, and chairman and member of committee(s), held by each Director are set out under "Corporate Information" on page 3 to 5. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The biographical details of the Directors are disclosed under the section headed "Directors and Senior Management" in this annual report.

The Board comprises the following Directors:

Executive Directors:
Mr. SONG Zhenghuan
Mr. WANG Haiye

Non-executive Directors:
Mr. Christopher Marcus GRADEL
Ms. CHIANG Yun

Independent non-executive Directors:
Mr. Iain Ferguson BRUCE
Mr. LONG Yongtu
Mr. SHI Xiaoguang

None of the members of the Board is related to one another, save and except that Mr. WANG Haiye, executive Director, vice president and chief operating officer, is the nephew of Mr. SONG Zhenghuan, the chairman, chief executive officer and executive Director of the Company.

Throughout the year from 1 January 2011 to 31 December 2011, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

The non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive Directors make various contributions to the effective direction of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. SONG Zhenghuan is an executive Director, the chairman of the Company, chief executive officer and the founder of the Group. The Board considers that vesting the roles of the chairman of the Company and chief executive officer in the same person is necessary because of the importance of Mr. Song in the business development efforts of the Company and it is beneficial to the business prospects and management of the Group. Furthermore, all major decisions are made in consultation with members of the Board, appropriate Board committees or senior management of the Group. There are also three independent non-executive Directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing on 24 November 2010 which may be terminated by not less than three month's 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 for a term of three years with effect from the respective date stated therein.

The appointments of all Directors are subject to the provisions of retirement and rotation of Directors under the Company's articles of association. In accordance with the Company's articles of association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself / herself for re-election by shareholders at the first general meeting after appointment. Any new Director appointed as an addition to the Board shall submit himself / herself for re-election by shareholders at the next following annual general meeting.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association.

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely Mr Iain Ferguson BRUCE (chairman), Mr LONG Yongtu and Mr SHI Xiaoguang, all of them are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

No meeting was held by the Nomination Committee for the year ended 31 December 2011 because the Company was listed on 24 November 2010, and all the Directors were re-elected as Directors at the 2011 annual general meeting held on 20 May 2011. The Nomination Committee considers that it is not necessary to review the size and composition of the Board and identify any new Board member for the year ended 31 December 2011. Up to the date of this annual report, a meeting of the Nomination Committee was held on 16 March 2012.

The Company's circular dated 25 April 2012 contains detailed information of the Directors standing for re-election.

TRAINING OF DIRECTORS

Each newly appointed Director receives formal, comprehensive and tailored 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.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

BOARD MEETINGS

BOARD PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

Where necessary, the senior management attend regular Board meetings and other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

DIRECTORS' ATTENDANCE RECORDS

The Board met six times during the year ended 31 December 2011.

The attendance records of each Director at the Board meetings during the year ended 31 December 2011 are set out below:

Name of Director	Attendance / Number of Meetings
SONG Zhenghuan	4/6
WANG Haiye	5/6
Christopher Marcus GRADEL	3/6
CHIANG Yun	6/6
Iain Ferguson BRUCE	6/6
LONG Yongtu	4/6
SHI Xiaoguang	6/6

MODEL CODE FOR 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 required standard of dealings set out in the Model Code throughout the year ended 31 December 2011.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") 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 Written Guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD OF MANAGEMENT FUNCTION

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer (also chairman) and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to shareholders via the websites of the Stock Exchange and the Company.

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 2011 are set out in note 10 to the Financial Statements.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely, Mr. Iain Ferguson BRUCE (chairman), Mr. LONG Yongtu and Mr. SHI Xiaoguang, all of whom are independent non-executive Directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive Directors and the senior management. The Remuneration Committee is also responsible for 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, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee held two meetings during the year ended 31 December 2011 and the attendance records are set out below:

Name of Director	Attendance / Number of Meetings
Iain Ferguson BRUCE	2/2
LONG Yongtu	2/2
SHI Xiaoguang	2/2

During the year under review, the Remuneration Committee reviewed and recommended to the Board for consideration and approval the report on remuneration for Directors and senior management for 2010 and 2011, the report on senior management compensation scheme, and proposal on the grant of 30,551,000 share options to certain employees of the Company and its subsidiaries to subscribe for an aggregate of 30,551,000 new shares of HK$0.01 each in the share capital of the Company, subject to the acceptance of such grantees under the rules of the share option scheme adopted by the Company on 5 November 2010.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILTIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

Where appropriate, a report will be submitted on any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

INTERNAL CONTROLS

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

The key elements of the Group's internal control system include the following:

- An organizational structure with clearly defined and distinct lines of authority and control responsibilities
- A comprehensive financial 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 reference to potential significant risks
- Strict prohibition of unauthorized expenditures and release of confidential information
- Specific approval from executive Director or responsible senior executive prior to commitment in all material matters
- Appropriate policy to ensure the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget
- Review and evaluation of the control process and monitoring of any risk factors on a regular basis by the management; and report by the same to the Audit Committee on any findings and measures to address the variances and identified risks.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Iain Ferguson BRUCE (chairman), Mr. LONG Yongtu and Mr. SHI Xiaoguang. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- Review of the financial information of the Group
- Review of the relationship with and the terms of appointment of the external auditors
- Review of the Company's financial reporting system, internal control system and risk management system

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2011, the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Audit Committee held four meetings during the year ended 31 December 2011 and the attendance records are set out below:

Name of Director	Attendance / Number of Meetings
Iain Ferguson BRUCE	4/4
LONG Yongtu	3/4
SHI Xiaoguang	4/4

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 62 to 63 of this annual report.

During the year under review, the remuneration paid and payable to the Company's external auditors, Ernst & Young, is set out below:

	HK$'000
Audit Services	3,745
Non-audit Services	
- Transfer pricing compliance work for subsidiaries of the Company	483
- Annual tax filing services	19
Total	4,247

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS / INVESTOR RELATIONS

The general meetings of the Company provide a forum and an important channel for communication between the Board and the shareholders. The chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

The 2012 annual general meeting ("AGM") will be held on 25 May 2012. The notice of AGM was sent to shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.gbinternational.com.hk, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual Directors.

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 shareholder 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 shareholder meeting.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Report of the Board of Directors

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2011 of the Group.

MAJOR BUSINESS

The Company is an investment holding company, and its subsidiaries are principally engaged in the design, research and development, manufacture, marketing and sale of strollers, children's car safety seats, cribs, bicycles and tricycles, and other durable juvenile products. The analysis of the revenue of the Group for the year is set out in note 5 to the Financial Statements.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Statement of Comprehensive Income on pages 64 to 65. The financial position as at 31 December 2011 of the Group are set out in the Consolidated Statement of Financial Position on pages 66 to 67. The cash flow of the Group during the year is set out in the Consolidated Statement of Cash Flows on pages 69 to 70.

SHARE CAPITAL

The changes in share capital of the Group during the year are set out in note 33 to the Financial Statements.

FINAL DIVIDEND

At the Board meeting held on 16 March 2012, it was proposed that a final dividend of HK$0.05 per ordinary share representing a total distribution of HK$50 million be paid on 15 June 2012 to the shareholders of the Company whose names appear on the Company's register of members on 31 May 2012. The proposed final dividend is subject to approval by the shareholders at the annual general meeting of the Company to be held on 25 May 2012.

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

BOOK CLOSE PERIOD AND RECORD DATE

(a) For determining the entitlement to attend and vote at the annual general meeting

The Company's register of members will be closed from 21 May 2012 (Monday) to 25 May 2012 (Friday) (both days inclusive), during which time no transfer of shares will be registered. To ensure that shareholders are entitled to attend and vote at the annual general meeting, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 18 May 2012 (Friday) for registration of the relevant transfer.

(b) For determining the entitlement to the Proposed final dividend

For determining the entitlement to the proposed final dividend for the year ended 31 December 2011, the record date is fixed on 31 May 2012 (Thursday). To ensure that shareholders are entitled to receive the distribution of final dividends to be approved at the Company's annual general meeting, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 31 May 2012 (Thursday) for registration of the relevant transfer.

RESERVE

Details of the changes in reserve of the Group during the year are set out in note 34 to the Financial Statements.

As at 31 December 2011, the reserves of the Company available for distribution to shareholders was approximately HK$999.2 million.

PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the year are set out in note 17 to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's five largest suppliers combined was less than 30% of the Group's total purchase. The percentages of sales for the year attributable to the Group's major customers are as follows:

– the largest customer	40.3%
– five largest customers in aggregate	60.1%

Save as disclosed herein, as far as the Company is aware, none of the Directors nor his connected persons and none of the shareholders possessing over 5% of the interest in the capital of the Company possessed any interest in the above-mentioned suppliers and customers. Goodbaby China Commercial Co., Ltd.*（好孩子（中國）商貿有限公司）, one of the Group's major customers, is an indirect subsidiary of our controlling shareholders.

DONATION

During the year under review, the charitable contributions and other donations made in Hong Kong and China totalled HK$0.23 million.

* For identification purpose only

DIRECTORS

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

Executive Directors

SONG Zhenghuan
WANG Haiye

Non-executive Directors

Christopher Marcus GRADEL
CHIANG Yun

Independent non-executive Directors

Iain Ferguson BRUCE
LONG Yongtu
SHI Xiaoguang

Further details of the Directors and senior management are set forth in the section "Directors and Senior Mangement" of this annual report.

In accordance with the articles of association of the Company, Mr. WANG Haiye, Mr. Christopher Marcus GRADEL and Ms. CHIANG Yun will retire in the forthcoming annual general meeting, and being eligible, have offered themselves to be re-elected and re-appointed at the forthcoming annual general meeting.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing on 24 November 2010, which may be 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 for a term of three years with effect from the respective date stated therein.

There was no service contract entered by the Company and any Directors to be re-elected in the forthcoming annual general meeting which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Other than those transactions disclosed in note 37 to the Financial Statements and in the section "Connected transactions" below, there was no other significant contracts with any member of the Group as the contracting party and in which the Directors possessed direct or indirect substantial interests, and which was still valid on the year end date or any time during the year and related to the business of the Group.

DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

During the year, save as disclosed below, none of the Directors is considered to have interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

On 9 November 2010, each of CRF Enterprise Limited, Pacific United Developments Limited, CRF Investment Limited, Arc Capital Holdings Limited, Mr. Song Zhenghuan, Ms. Fu Jingqiu, Mr. Wang Haiye, Mr. Christopher Marcus Gradel, and Ms. Chiang Yun (collectively, the "Covenantors") entered into a deed of non-competition (the "Deed of Non-Competition") with the Company pursuant to which each of the Covenantors has separately undertaken to the Company that she/he/it shall not and will procure that her/his/its associates shall not, among other matters, directly or indirectly engage, participate, or hold any right or interest in, or otherwise be involved in any business which is or may be in competition with the businesses of the Company and its subsidiaries (in existence from time to time). Details of the Deed of Non-Competition were disclosed in the Company's prospectus for global offering dated 11 November 2010 (the "Prospectus") under the section headed "Relationship with Our Controlling Shareholders".

Each of the Covenantors has provided an annual declaration on his/her/its compliance with the undertakings contained in the Deed of Non Competition undertaken by them. The independent non-executive Directors have reviewed and were satisfied that each of the Covenantors has complied with the Deed of Non-Competition for the year ended 31 December 2011.

SHARE OPTION SCHEME

On 5 November 2010, the Company adopted a share option scheme ("**Share Option Scheme**") whereby the Board of Directors can grant options for the subscription of the Company's shares to any 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 Scheme as incentives or rewards 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.

Since the Share Option Scheme was adopted, no options have been granted as at 31 December 2011. Up to the date of this report, the Company has granted to certain eligible participants, subject to their acceptance, a total of 30,551,000 options on 3 January 2012.

As at 31 December 2011, the total number of shares available for issue under the Share Option Scheme was 100,000,000 shares, which represented 10% of the shares in issue as at the date of this annual report.

The options issued pursuant to the Share Option Scheme will expire no later than 10 years from the date of grant of the option.

For any options granted to Directors, chief executives or substantial shareholders of the Company, or any of their respective associate, options to be granted to any of these persons shall be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of options). Where any option granted to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the shares issued or to be issued upon exercise of all options already granted and to be granted to such person in the 12 month period, (i) representing in aggregate over 0.1% of the shares in issue on the date of such grant; and (ii) having an aggregate value, based on the closing price of the shares, in excess of HK$5 million, such grant of options shall be subject to prior approval by resolutions of the shareholders (voting by way of poll).

The 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 amount payable on acceptance of an option is HK$1.00, which will be payable on or before a prescribed acceptance date. In relation to any options granted under the Share Option Scheme, 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 shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The Share Option Scheme does not contain any minimum period for which an option must be held before it can be exercised. However, at the time of granting of the options, the Board may specify any such minimum period.

Unless otherwise terminated by the Board or the shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption which was 5 November 2010, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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.

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

As at 31 December 2011, the interest or short positions of the Directors or chief executives of the Company 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 for Securities Transactions by Directors of Listed Companies, are as follows:

Directors' Interest in the Shares

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of Shareholding
Mr. Song Zhenghuan (Note 2)	Beneficiary of a trust	259,000,000 (L)	25.9%

Notes:

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

(2) Mr. Song is a discretionary beneficiary of a trust of which Credit Suisse Trust Limited is the trustee. See note 2 of the section headed "Substantial Shareholders' Interests and Short Positions" for further details of this interest.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2011, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Capacity	Number of Shares	Percentage of Shareholding
Pacific United Developments Limited	Beneficial owner	259,000,000 (L)	25.9%
Cayey Enterprises Limited (Note 2)	Interest of controlled corporation	259,000,000 (L)	25.9%
Credit Suisse Trust Limited (Note 2)	Trustee	259,000,000 (L)	25.9%
Grappa Holdings Limited (Note 2)	Interest of controlled corporation	259,000,000 (L)	25.9%
Seletar Limited (Note 2)	Interest of controlled corporation	259,000,000 (L)	25.9%
Serangoon Limited (Note 2)	Interest of controlled corporation	259,000,000 (L)	25.9%
Ms. Fu Jingqiu (Note 2)	Settlor/beneficiary of a trust	259,000,000 (L)	25.9%

Name	Capacity	Number of Shares	Percentage of Shareholding
CRF Enterprise Limited	Beneficial owner	396,000,000 (L)	39.6%
CRF Investment Limited (Note 3)	Interest of controlled corporation	396,000,000 (L)	39.6%
CRF Investment Holdings Limited (Note 4)	Interest of controlled corporation	396,000,000 (L)	39.6%
ARC Capital Holdings Limited (Note 4)	Interest of controlled corporation	396,000,000 (L)	39.6%
ARC Capital Partners Limited (Note 5)	Investment manager	396,000,000 (L)	39.6%
Pacific Alliance Equity Partners Limited (Note 6)	Interest of controlled corporation	396,000,000 (L)	39.6%
Pacific Alliance Investment Management Limited (Note 7)	Interest of controlled corporation	396,000,000 (L)	39.6%
Pacific Alliance Group Limited (Note 8)	Interest of controlled corporation	396,000,000 (L)	39.6%
Pacific Alliance Group Holdings Limited (Note 9)	Interest of controlled corporation	396,000,000 (L)	39.6%
Millennium Partners, L.P. (Note 10)	Interest of controlled corporation	396,000,000 (L)	39.6%
Mirae Asset Global Investments (Hong Kong) Limited	Investment manager	59,882,000 (L)	5.99%
The Capital Group Companies, Inc.	Interest of controlled corporation	50,252,000(L)	5.03%

Notes:

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

(2) Pacific United Developments Limited is owned as to approximately 45.39% by Cayey Enterprises Limited, which in turn is, as at 31 December 2011, 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, which is the trustee holding such 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) CRF Investment Limited holds a 74.78% shareholding interest in CRF Enterprise Limited and is therefore deemed to be interested in 396,000,000 shares.

(4) ARC Capital Holdings Limited ("ARCH") and CRF Investment Holdings Limited ("CRFIH") hold respectively a 50.25% and 49.75% shareholding interest in CRF Investment Limited, and consequently each of ARCH and CRFIH is deemed to be interested in 396,000,000 shares.

(5) *ARCH is an investment fund the shares of which are managed by ARC Capital Partners Limited ("ACP"), which has the right to exercise the voting rights attached to ARCH's holding of shares in CRF Investment Limited and consequently ACP is deemed to be interested in 396,000,000 shares.*

(6) *Pacific Alliance Equity Partners Limited ("PAEP") holds a 100% shareholding interest in ACP and is therefore deemed to be interested in 396,000,000 shares.*

(7) *Pacific Alliance Investment Management Limited ("PAIM") holds a 61.8% shareholding interest in PAEP and is therefore deemed to be interested in 396,000,000 shares.*

(8) *Pacific Alliance Group Limited ("PAG") holds a 90% shareholding interest in PAIM and is therefore deemed to be interested in 396,000,000 shares.*

(9) *Pacific Alliance Group Holdings Limited holds 99.17% shareholding interest in PAG and is therefore deemed to be interested in 396,000,000 shares.*

(10) *Millennium Partners, L.P. holds a 34.72% shareholding interest in CRFIH and is therefore deemed to be interested in 396,000,000 shares. Millennium Management LLC is the general partner of Millennium Partners, L.P., and therefore may also be deemed to be interested in 396,000,000 shares. Israel A. Englander, is the managing member of Millennium Management LLC, and therefore may also be deemed to be interested in 396,000,000 shares.*

SUBSIDIARIES

The Group's operations are substantially conducted in the PRC through its direct or indirect subsidiaries. Details of the subsidiaries of the Company as at 31 December 2011 are set out in note 30 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.

CONNECTED TRANSACTIONS

The Group's related parties transactions marked with "#" for the year ended 31 December 2011 set out in note 37 to the Financial Statements constitute continuing connected transactions as defined in chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in chapter 14A of the Listing Rules.

A. Continuing connected transactions which are exempted from the independent shareholders' approval requirement, but subject to the reporting, annual review and announcement requirements of the Listing Rules

(a) *Provision of Services by Goodbaby Child Products Co., Ltd.（好孩子兒童用品有限公司）("GCPC") to Geoby Electric Vehicle Co., Ltd.*（捷奧比電動車有限公司）("GPCL")*

On 8 November 2010, GCPC, a subsidiary of the Company, entered into an agreement (the "General Services Agreement") with GPCL for a period commencing from 24 November 2010 and ending on 31 December 2012 with respect to our provision of general services to GPCL, including, cleaning and maintenance of the landscape, security, repair and maintenance, management and other services in relation to the Goodbaby industrial park situated at Lujia Town, Kunshan, the PRC. A staff dormitory, canteen and factories, occupied and/or used by GPCL and/or

* For identification purpose only

its employees are located at the property. The amount of service fees payable by GPCL to GCPC under the General Services Agreement is determined based on the actual costs incurred by GCPC plus an approximate premium of 5%.

During the year under review, the total amount of service fees paid by GPCL to GCPC under the General Services Agreement was HK$0 and the annual cap amount granted by the Stock Exchange was HK$2,400,000. Details of such transaction were disclosed in the Company's Prospectus under the section headed "Connected Transactions".

(b) *Supply of components by GCPC to GPCL*

On 8 November 2010, GCPC entered into an agreement with GPCL (the "GPCL Supply Agreement") for a period commencing from 24 November 2010 and ending on 31 December 2012, pursuant to which GCPC agreed to supply components (mainly plastic components) to GPCL for the manufacture of wheelchairs and sports equipment. The amount payable by GPCL to GCPC under the GPCL Supply Agreement is determined based on prevailing market rate.

During the year under review, the total amounts paid by GPCL to GCPC for the supply of components under the GPCL Supply Agreement was HK$0 and the annual cap amount granted by the Stock Exchange was HK$20,700,000. Details of such transaction were disclosed in the Company's Prospectus under the section headed "Connected Transactions".

GPCL was a wholly owned subsidiary of G-Baby Holdings Limited, which in turn was held as to approximately 37% and 63% by Pacific United Developments Limited ("PUD") and CRF Enterprise Limited ("CRF Enterprise"), respectively, both of which are controlling shareholders of the Company. Accordingly, GPCL was an associate of PUD and CRF Enterprise under the Listing Rules and thus would be regarded as a connected person of our Company under the Listing Rules. As at 18 January 2011, GPCL ceased to be a connected person of the Company under the Listing Rules as it was disposed by G-Baby Holdings Limited to an independent third party.

B. Continuing connected transaction subject to the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules

(a) *Sale of our products by GCPC to Goodbaby China Commercial Co., Ltd.* (好孩子（中國）商貿有限公司) ("GCCL")*

On 8 November, 2010, GCPC entered into an agreement (the "GCCL Supply Agreement") with GCCL for a period commencing from 24 November 2010 and ending on 31 December 2012, pursuant to which GCPC agreed to supply strollers, children's car safety seats, cribs, children's bicycles and other durable juvenile products (the "Products") to GCCL for domestic sales. The purchase price of the Products payable by GCCL to GCPC under the GCCL Supply Agreement is determined based on prevailing market rate.

* For identification purpose only

During the year under review, the total amounts paid by GCCL to GCPC for the Products under the GCCL Supply Agreement was RMB309,955,962 and the annual cap amount granted by the Stock Exchange was RMB310,643,000. Details of such transaction were disclosed in the Company's Prospectus under the section headed "Connected Transactions" and the circular of the Company dated 22 November 2011.

GCCL is a wholly owned subsidiary of G-Baby Holdings Limited, which in turn is held as to approximately 36.1% by CRF Enterprise, a substantial shareholder of the Company, and as to approximately 63.9% by companies ultimately controlled by Mr. Song Zhenghuan, the chairman of the Company, and his spouse, including PUD, another substantial shareholder of the Company. Accordingly, GCCL is an associate of Mr. Song Zhenghuan and CRF Enterprise under the Listing Rules and thus is regarded as a connected person of the Company under the Listing Rules.

Pursuant to Rule 14A.38 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. 37 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) either (a) on normal commercial terms or; (b) where there is no available comparable terms, on terms no less favorable to the Group than terms available to or from independent third parties; 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.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2011, the Group had an aggregate of 14,245 full-time employees. Employee costs, excluding Directors' emoluments, totalled HK$689.4 million for the year of 2011. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale. The Group operates a defined contribution mandatory provident fund retirement benefits for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.

The Company has also adopted a share option scheme on 5 November 2010. During the year, no share option was granted.

CONFIRMATION OF INDEPENDENT STATUS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors independent.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

On 24 November 2010, the Company's shares were listed on the Stock Exchange and raised net proceeds of approximately HK$894.3 million. As at 31 December 2011, the Company has used approximately HK$466.3 million from such proceeds as working capital. The balance of the un-utilized proceeds, deposited in normal interest bearing saving accounts, will be applied by the Company as stated in the section headed "Future Plans and Use of Proceeds" of the Company's Prospectus.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the corporate governance report contained in this annual report.

EXCHANGE RISKS

Details of the exchange risks are set out in note 40 to the Financial Statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

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.

EVENT AFTER THE REPORTING PERIOD

Details of the event after the reporting period of the Group are set out in note 42 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 on pages 158 to 159 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.

SUFFICIENT PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules for the year ended 31 December 2011.

AUDITORS

The financial statements of the Company for the year ended 31 December 2011 have been audited by Ernst & Young which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming AGM.

For and on behalf of the Board of Directors
Song Zhenghuan
Chairman

16 March 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Goodbaby International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Goodbaby International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 64 to 157, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 a summary of significant accounting policies and other explanatory information.

DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
16 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2011

	Notes	2011 (HK$'000)	2010 (HK$'000)
Continuing operations			
Revenue	6	**3,941,672**	3,721,908
Cost of sales		**(3,267,990)**	(2,979,349)
Gross profit		**673,682**	742,559
Other income and gains	6	**106,109**	32,851
Selling and distribution costs		**(271,309)**	(246,002)
Administrative expenses		**(301,080)**	(245,505)
Other expenses		**(5,729)**	(20,593)
Operating profit		**201,673**	263,310
Finance income	7	**3,749**	1,163
Finance costs	8	**(11,617)**	(18,341)
Profit before tax from continuing operations	9	**193,805**	246,132
Income tax expense	12	**(16,117)**	(42,942)
Profit for the year from continuing operations		**177,688**	203,190
Discontinued operation			
Loss after tax for the year from a discontinued operation	14	**-**	(52,237)
Profit for the year		**177,688**	150,953
Other comprehensive income			
Exchange differences on translation		**38,883**	15,844
Total comprehensive income for the year, net of tax		**216,571**	166,797
Profit for the year attributable to:			
Owners of the parent		**176,915**	150,925
Non-controlling interests		**773**	28
		177,688	150,953

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2011

	Notes	2011 (HK$'000)	2010 (HK$'000)
Total comprehensive income attributable to:			
Owners of the parent		**214,503**	165,871
Non-controlling interests		**2,068**	926
		216,571	166,797
Earnings per share attributable to ordinary equity holders of the parent:	16		
Basic and diluted			
– For profit for the year (HK$)		**0.18**	0.18
– For profit from continuing operations (HK$)		**0.18**	0.24

Details of the dividends payable and proposed for the year are disclosed in note 15 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	**2011 (HK$'000)**	2010 (HK$'000)
NON-CURRENT ASSETS			
Property, plant and equipment	17	**640,087**	538,491
Prepaid land lease payments	18	**70,595**	67,118
Intangible assets	19	**38,082**	30,836
Deferred tax assets	29	**15,153**	15,912
Total non-current assets		**763,917**	652,357
CURRENT ASSETS			
Inventories	21	**676,767**	571,309
Trade and notes receivables	22	**642,427**	506,311
Prepayments and other receivables	23	**166,296**	178,243
Due from related parties	37	**119,529**	76,945
Cash and cash equivalents	24	**788,356**	1,024,722
Derivative financial instruments	20	**13,947**	–
Total current assets		**2,407,322**	2,357,530
CURRENT LIABILITIES			
Trade and notes payables	25	**857,302**	685,180
Other payables, advances from customers and accruals	26	**236,731**	265,924
Interest-bearing bank borrowings	28	**326,498**	319,590
Derivative financial instruments	20	**–**	2,885
Due to related parties	37	**–**	649
Income tax payable		**9,649**	9,732
Provision	27	**12,938**	23,922
Dividends payable		**1**	–
Total current liabilities		**1,443,119**	1,307,882
NET CURRENT ASSETS		**964,203**	1,049,648
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,728,120**	1,702,005

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 (HK$'000)	2010 (HK$'000)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	-	152,779
Deferred tax liabilities	29	20,672	8,349
Total non-current liabilities		20,672	161,128
Net assets		1,707,448	1,540,877
EQUITY			
Equity attributable to owners of the parent			
Issued capital	33	10,000	10,000
Reserves	34(a)	1,619,602	1,455,099
Proposed final dividend	15	50,000	50,000
		1,679,602	1,515,099
Non-controlling interests		27,846	25,778
Total equity		1,707,448	1,540,877

SONG Zhenghuan
Director

WANG Haiye
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2011

	Attributable to owners of the parent									
	Share capital (HK$'000) (note 33)	Share premium (HK$'000)	Statutory reserve funds (HK$'000) (note 34(a))	Cumulative translation adjustments (HK$'000)	Merger reserve (HK$'000) (note 34(a))	Retained earnings (HK$'000)	Proposed final dividend (HK$'000) (note 15)	Total (HK$'000)	Non-controlling interests (HK$'000)	Total equity (HK$'000)
As at 1 January 2010	273	255,668	87,923	124,903	118,276	206,351	-	793,394	31,019	824,413
Profit for the year	-	-	-	-	-	150,925	-	150,925	28	150,953
Exchange differences on translation	-	-	-	14,946	-	-	-	14,946	898	15,844
Total comprehensive income for the year	-	-	-	14,946	-	150,925	-	165,871	926	166,797
Proposed final 2010 dividend	-	-	-	-	-	(50,000)	50,000	-	-	-
Profit appropriation	-	-	17,645	-	-	(17,645)	-	-	-	-
Issuance of shares	2,010	982,890	-	-	-	-	-	984,900	-	984,900
Capitalisation issue	7,717	(7,717)	-	-	-	-	-	-	-	-
Share issuance expenses	-	(58,260)	-	-	-	-	-	(58,260)	-	(58,260)
Special dividends declared (note 15)	-	(255,668)	-	-	-	(150,837)	-	(406,505)	-	(406,505)
Deemed contribution from an equity holder (note 32)	-	-	-	-	35,699	-	-	35,699	-	35,699
Disposal of a discontinued operation	-	-	-	-	-	-	-	-	(6,167)	(6,167)
As at 31 December 2010 and 1 January 2011	**10,000**	**916,913***	**105,568***	**139,849***	**153,975***	**138,794***	**50,000**	**1,515,099**	**25,778**	**1,540,877**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**176,915**	**-**	**176,915**	**773**	**177,688**
Exchange differences on translation	**-**	**-**	**-**	**37,588**	**-**	**-**	**-**	**37,588**	**1,295**	**38,883**
Total comprehensive income for the year	**-**	**-**	**-**	**37,588**	**-**	**176,915**	**-**	**214,503**	**2,068**	**216,571**
Proposed final 2011 dividend	**-**	**-**	**-**	**-**	**-**	**(50,000)**	**50,000**	**-**	**-**	**-**
Profit appropriation	**-**	**-**	**1,834**	**-**	**-**	**(1,834)**	**-**	**-**	**-**	**-**
2010 dividends declared (note 15)	**-**	**-**	**-**	**-**	**-**	**-**	**(50,000)**	**(50,000)**	**-**	**(50,000)**
As at 31 December 2011	**10,000**	**916,913***	**107,402***	**177,437***	**153,975***	**263,875***	**50,000**	**1,679,602**	**27,846**	**1,707,448**

* *These reserve accounts comprise the consolidated reserves of HK$1,619,602,000 (2010: HK$ 1,455,099,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2011

	Note	2011 (HK$'000)	2010 (HK$'000)
Cash flows from operating activities:			
Profit for the year:		**177,688**	150,953
Income tax expense		**16,117**	35,884
Depreciation and amortisation		**79,479**	93,429
Loss on disposal of items of property, plant and equipment		**1,732**	977
Fair value (gains)/losses on derivative financial instruments		**(13,947)**	2,885
Write-down of inventories		**1,032**	4,610
Recognition/(reversal) for impairment of receivables		**245**	(620)
Interest expense		**11,617**	24,482
Interest income		**(3,749)**	(1,635)
Transaction costs related to the issue of shares		**-**	32,343
Increase in inventories		**(106,490)**	(176,800)
Increase in trade and notes receivables		**(122,837)**	(23,464)
Decrease/(increase) in prepayments and other receivables		**11,947**	(65,231)
(Increase)/decrease in amounts due from related parties		**(42,584)**	161,242
Decrease in amounts due to related parties		**(649)**	(95,729)
Increase in trade and notes payables		**172,122**	51,835
(Decrease)/increase in other payables, advances from customers and accruals		**(14,054)**	11,764
(Decrease) /increase in provision		**(10,984)**	2,404
Income tax paid		**(18,161)**	(38,461)
Net cash flows generated from operating activities		**138,524**	170,868

continued/...

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2011

	Note	2011 (HK$'000)	2010 (HK$'000)
Cash flows from investing activities:			
Proceeds from disposal of items of property, plant and equipment		**4,137**	5,716
Advance to related parties		**–**	(43,997)
Net cash outflow in respect of disposal of discontinued operations	32	**–**	(37,262)
Interest received		**3,749**	1,635
Purchase of items of property, plant and equipment		**(151,996)**	(105,888)
Purchase of intangible assets		**(9,676)**	(6,662)
Purchase of prepaid land lease payments		**–**	(9,139)
Net cash flows used in investing activities		**(153,786)**	(195,597)
Cash flows from financing activities:			
Proceeds from issue of shares		**–**	984,900
Proceeds from borrowings		**863,153**	836,127
Repayment of borrowings		**(1,022,641)**	(882,807)
Share issue expense		**–**	(82,872)
Interest paid		**(11,617)**	(24,482)
Dividends paid		**(49,999)**	–
Net cash flows (used in)/generated from financing activities		**(221,104)**	830,866
Net (decrease)/increase in cash and cash equivalents		**(236,366)**	806,137
Cash and cash equivalents at 1 January		**1,024,722**	218,585
Cash and cash equivalents at 31 December	24	**788,356**	1,024,722

Details of major non-cash transactions are included in note 41.

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Note	2011 (HK$'000)	2010 (HK$'000)
NON-CURRENT ASSETS			
Investments in subsidiaries	30	**10,367**	10,367
Total non-current assets		**10,367**	10,367
CURRENT ASSETS			
Other receivables	23	**174**	7,103
Due from subsidiaries		**459,928**	520,522
Cash and cash equivalents	24	**554,937**	531,174
Total current assets		**1,015,039**	1,058,799
CURRENT LIABILITIES			
Other payables	26	**15,911**	23,497
Due to a subsidiary		**274**	148
Due to related parties	37	**-**	649
Total current liabilities		**16,185**	24,294
NET CURRENT ASSETS		**998,854**	1,034,505
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,009,221**	1,044,872
Net assets		**1,009,221**	1,044,872
EQUITY			
Equity attributable to owners of the parent			
Issued capital	33	**10,000**	10,000
Reserves	34(b)	**949,221**	984,872
Proposed final dividend	15	**50,000**	50,000
Total equity		**1,009,221**	1,044,872

SONG Zhenghuan
Director

WANG Haiye
Director

1. CORPORATE 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, PO 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 the manufacturing and distribution of products for children.

2. 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 derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Pursuant to a reorganisation (the "Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Stock Exchange, the Group acquired a 100% equity interest in Paragon Child Products Co., Ltd. ("PCPC") from a fellow subsidiary, Geoby Paragon Holdings Limited ("GPHL") in June 2010. As the Group, PCPC and GPHL were under the common control of G-Baby Holdings Limited ("GBHL") before and after the acquisition and the control was not transitory, the acquisition of PCPC was accounted for using the pooling of interest method as if PCPC were the Group's subsidiary since 1 January 2009. Accordingly, the assets, liabilities and results of operations of PCPC were included in the preparation of the consolidated financial statement of the Group since 1 January 2009. Details of the Reorganisation are set out in the Prospectus of the Company dated 24 November 2010.

Changes in accounting policy and disclosures

For the purpose of these consolidated financial statements, the Group has adopted at the beginning of the financial years presented all the IFRSs that have been issued and are effective for the financial years presented.

2. BASIS OF PREPARATION (Continued)

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 2011. 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 of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. Total comprehensive income within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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.

3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income ("OCI")

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendments clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment is deemed to have no impact on the financial statements of the Company. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (as revised in 2011)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly-controlled entities, and associates in separate financial statements. The Company does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment removes the option to account for joint venture of the Company using proportionate consolidation and requires the Company to account for its investment in joint venture using equity method. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendments require additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have no impact on classification and measurements of the Company's financial assets and financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The application of this new standard will not impact the financial position of the Company. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Company. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The application of this new standard will not impact the financial position of the Company. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Company considers that these new and revised IFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity, whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in its jointly-controlled entity is accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entity are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investment in jointly-controlled entity is treated as non-current asset and stated at cost less any impairment losses.

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 control the acquiree. For each business combination, the Group elects whether it measures 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 either at fair value or at the proportionate share of the acquiree's identifiable net assets. All of the components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

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 by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value as at the acquisition date through profit or loss.

3.2 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. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in the statement of comprehensive income as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets of liabilities of the Group are assigned to those units or groups of units.

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 forms part of a cash-generating unit (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3.2 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, 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 to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income 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 the year as to whether there is any 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 comprehensive income in the period in which it arises.

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

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Related parties (Continued)

(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); and

(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).

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. 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 comprehensive income 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.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Property, plant and equipment and depreciation (Continued)

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis over the estimated useful life of each item of property, plant and equipment, after taking into account the residual value as follows:

	Estimated useful lives	**Estimated residual value**
Buildings	20 years	10%
Plant and machinery	10 years	10%
Motor vehicles	5 years	10%
Furniture and fixtures	5 years	–
Leasehold improvements	lesser of lease term or useful life	–

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 and 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 comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

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.

Trademarks and computer software

Expenditure on acquired trademarks and computer software is capitalised and amortised using the straight-line method over their estimated useful lives of five to thirty years.

3.2 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 comprehensive income 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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 of the Group are classified as loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The Group's financial assets include cash and cash equivalents, trade and notes receivables, other receivables and amounts due from related parties.

3.2 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 fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

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 other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in finance costs for loans and in other expenses for receivables.

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 derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset when it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 of the Group are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and notes payables, other payables, derivative financial instruments, amounts due to related parties and interest-bearing bank 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 acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. 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 income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Financial liabilities (Continued)

Loans and borrowings

After initial recognition, trade and notes payables, other payables, amounts due to related parties and interest-bearing bank 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 comprehensive income 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 comprehensive income.

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 comprehensive income.

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 currently an 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.

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same and a discounted cash flow analysis.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Derivative financial instruments

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 comprehensive income.

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.

Cost of inventories includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials.

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 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.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Provisions

A provision is recognised when there is 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 year 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 comprehensive income.

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 guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance 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 for the current and prior periods 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 year, 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.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, 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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Government grants (Continued)

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership and title have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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 (the "Scheme"), whereby the Group is required to contribute a certain percentage of the basic salaries of its 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 comprehensive income as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Pension scheme

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 in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income 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.

Borrowing costs

Borrowings costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use of sale are capitalised as part of the cost of the respective 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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5% and 13% has been applied to the expenditure on the individual assets.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation 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 ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement of translation of monetary items are taken to the statement of comprehensive income.

All differences arising on settlement or translation of monetary items are taken to the income statement 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 income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

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 determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on 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).

The functional currencies of certain subsidiaries and a jointly-controlled entity are currencies other than HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period and their statement of comprehensive income are translated into HK$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the cumulative translation adjustments. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

3.2 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 jointly-controlled entity 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 jointly-controlled entity which arise throughout the year are translated into HK$ at the weighted average exchange rates for the year.

Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is restated as if the operation had been discontinued from the beginning of the comparative period.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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 the disclosure of contingent liabilities, at the end of the reporting period. However, 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

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 unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2011 was approximately HK$15,909,000 (2010: HK$15,684,000). Further details are given in note 19.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. 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 to sell and its value in use. The calculation of the fair value less costs to sell 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.

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. Details of unrecognised tax losses as at the end of the reporting period are contained in note 29.

Provision for impairment of trade and notes receivables

The provision policy for impairment of trade and notes receivables is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the credit worthiness and the past collection history of each customer. If the financial conditions of the customers of the Group and the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. Further details are contained in note 22.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Estimation uncertainty (Continued)

Write-down of inventories

The Group's inventories are stated at the lower of cost and net realisable value. The Group write-down of 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 written-down, if appropriate.

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.

5. 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) Overseas – Strollers and accessories segment, which engages in the research, design, manufacturing and selling of strollers and accessories under the Group's own brands and third parties' brands;

(b) Overseas – Other durable juvenile products segment, which engages in the research, design, manufacturing and selling of car seats and accessories, cribs and accessories and other children's products under the Group's own brands and third parties' brands;

(c) Domestic – Strollers and accessories segment, which engages in the sourcing and distributing of strollers; and

(d) Domestic – Other durable juvenile products segment, which engages in the sourcing and distributing of durable juvenile products including car seats and accessories, cribs and accessories and other children's products.

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

5. OPERATING SEGMENT INFORMATION (Continued)

Intersegment sales are transacted with reference to the cost of the overseas – strollers and accessories and overseas – other durable juvenile products segments.

Year ended 31 December 2011

	Overseas HK$'000			Domestic HK$'000			Consolidated HK$'000
	Strollers and accessories	Other durable juvenile products	Subtotal	Strollers and accessories	Other durable juvenile products	Subtotal	
Segment revenue:							
Sales to external customers	1,514,031	1,426,815	2,940,846	419,536	581,290	1,000,826	3,941,672
Intersegment sales	169,263	276,359	445,622	-	-	-	445,622
			3,386,468			1,000,826	4,387,294
Reconciliation:							
Elimination of intersegment sales							(445,622)
Revenue from continuing operations							3,941,672
Cost of sales							(3,267,990)
Other income and gains							106,109
Operating costs							(572,389)
Other expenses							(5,729)
Finance income/(costs) - net							(7,868)
Profit before tax from continuing operations							193,805

5. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2010

	Overseas HK$'000 Strollers and accessories	Overseas HK$'000 Other durable juvenile products	Overseas HK$'000 Subtotal	Domestic HK$'000 Strollers and accessories	Domestic HK$'000 Other durable juvenile products	Domestic HK$'000 Subtotal	Consolidated HK$'000
Segment revenue:							
Sales to external customers	1,515,270	1,376,237	2,891,507	309,985	520,416	830,401	3,721,908
Intersegment sales	141,257	156,172	297,429	–	–	–	297,429
			3,188,936			830,401	4,019,337
Reconciliation:							
Elimination of intersegment sales							(297,429)
Revenue from continuing operations							3,721,908
Cost of sales							(2,979,349)
Other income and gains							32,851
Operating costs							(491,507)
Other expenses							(20,593)
Finance income/ (costs) - net							(17,178)
Profit before tax from continuing operations							246,132

5. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	European Market HK$'000	North America HK$'000	Mainland China HK$'000	Other Overseas Markets HK$'000	Total HK$'000
Year ended 31 December 2011					
Segment revenue:					
Sales to external customers	**1,222,811**	**1,140,753**	**1,000,826**	**577,282**	**3,941,672**
Year ended 31 December 2010					
Segment revenue:					
Sales to external customers	1,110,955	1,287,615	830,401	492,937	3,721,908

The revenue information from continuing operations above is based on the location of the customers.

(b) Non-current assets

Since all non-current assets, other than deferred tax assets, from continuing operations are located in Mainland China, no geographical information for non-current assets is presented.

Information about a major customer

Details of sales to a major customer accounting for 10% or more of total net sales of the Group are as follows:

	2011 (HK$'000)	2010 (HK$'000)
Continuing operations:	**1,587,018**	1,579,842

The above sales to a customer was derived from sales by the overseas – strollers and accessories and overseas – other durable juvenile products segments, including sales to a group of entities which are known to be under common control with that customer.

6. REVENUE , OTHER INCOME AND GAINS

An analysis of revenue, other income and gains from continuing operations is as follows:

	Group	
	2011 (HK$'000)	2010 (HK$'000)
Revenue:		
Sales of goods	**3,941,672**	3,721,908
Other income and gains:		
Net foreign exchange gain	**52,856**	–
Government grants (note (a))	**21,507**	7,733
Gain on sales of materials	**8,031**	17,132
Compensation income (note (b))	**3,261**	4,711
Service fee income (note (c))	**2,649**	1,508
Fair value gains on derivative financial instruments		
– transactions not qualifying as hedges	**13,947**	–
Others	**3,858**	1,767
Total	**106,109**	32,851

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. The amount of these government grants is determined solely at the discretion of the relevant government authorities and there is no assurance that the Group will continue to receive these government grants in the future. There were no unfulfilled conditions or contingencies attaching to these grants and they were recognised in the year of receipt.

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

Note (c): In 2011, the amount represents the service fee income for information technology services and factory administrative services provided to third parties.

7. FINANCE INCOME

	Group	
	2011 (HK$'000)	2010 (HK$'000)
Continuing operations:		
– Interest income on bank deposits	**3,749**	1,163

8. FINANCE COSTS

	Group	
	2011	2010
	(HK$'000)	(HK$'000)
Continuing operations:		
– Interest expense on bank loans and borrowings	**11,617**	18,341

9. PROFIT BEFORE TAX

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

	Group	
	2011	2010
	(HK$'000)	(HK$'000)
Cost of inventories recognised as expenses	**3,477,403**	3,085,972
Cost of service provided	**3,606**	877
Depreciation of items of property, plant and equipment	**73,194**	69,445
Amortisation of intangible assets	**3,492**	2,827
Amortisation of land lease payment	**2,793**	1,798
Research and development costs ("R&D")	**118,479**	79,421
Lease payments under operating leases in respect of properties	**25,215**	29,471
Auditors' remuneration (note (a))	**4,247**	7,490
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	**678,397**	560,198
Pension scheme contributions	**22,978**	20,506
	701,375	580,704
Net foreign exchange (gains)/losses	**(52,856)**	13,321
Recognition/(reversal) for impairment of receivables	**245**	(604)
Write-down of inventories	**1,032**	62
Product warranties	**1,864**	11,968
Fair value (gains)/losses on derivative financial instruments	**(13,947)**	2,885
Loss on disposal of items of property, plant and equipment	**1,732**	634
Bank interest income	**3,749**	1,163

Note (a): Auditors' remuneration for the year ended 31 December 2010 included a fee of HK$4,393,000 related to the listing of the Company's shares on the Stock Exchange.

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2011 (HK$'000)	2010 (HK$'000)
Fees	**741**	114
Other emoluments:		
Salaries, allowances and benefits in kind	**11,221**	10,673
Performance-related bonuses	**–**	2,159
Pension scheme contributions	**11**	8
	11,232	12,840
	11,973	12,954

(a) Independent non-executive directors

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

	2011 (HK$'000)	2010 (HK$'000)
LONG Yongtu	**–**	–
BRUCE, Iain Ferguson	**234**	36
SHI Xiaoguang	**195**	30
	429	66

There were no other emoluments payable to the independent non-executive directors in 2011 (2010: nil).

10. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

	Fees (HK$'000)	Salaries, allowances and benefits in kind (HK$'000)	Performance-related bonuses (HK$'000)	Pension scheme contributions (HK$'000)	Total remuneration (HK$'000)
2011					
Executive directors:					
SONG Zhenghuan	-	7,258	-	-	7,258
WANG Haiye*	-	3,963	-	11	3,974
	-	11,221	-	11	11,232
Non-executive directors					
GRADEL, Christopher Marcus	156	-	-	-	156
CHIANG Yun	156	-	-	-	156
	312	-	-	-	312

10. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors (Continued)

	Fees (HK$'000)	Salaries, allowances and benefits in kind (HK$'000)	Performance-related bonuses (HK$'000)	Pension scheme contributions (HK$'000)	Total remuneration (HK$'000)
2010					
Executive directors:					
SONG Zhenghuan	–	5,334	–	–	5,334
FU Jingqiu*	–	2,394	–	–	2,394
WANG Haiye*	–	2,945	2,159	8	5,112
	–	10,673	2,159	8	12,840
Non-executive directors					
GRADEL, Christopher Marcus	24	–	–	–	24
CHIANG Yun	24	–	–	–	24
	48	–	–	–	48

* *FU Jingqiu resigned as director and WANG Haiye was appointed as an executive director on 19 August 2010 .*

There was no arrangement under which a director waived or agreed to waive any remuneration in 2011 (2010: nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2010: two), details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2010: three) non-director, highest paid employees for the year are as follows:

	2011 (HK$'000)	2010 (HK$'000)
Salaries, allowances and benefits in kind	**9,318**	7,863
Performance-related bonuses	**2,724**	5,450
Pension scheme contributions	**73**	58
	12,115	13,371

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

	Number of employees 2011	2010
HK$2,000,001 to 3,000,000	**1**	–
HK$3,000,001 to 3,500,000	**–**	1
HK$3,500,001 to 4,000,000	**–**	–
HK$4,000,001 to 4,500,000	**1**	1
HK$4,500,001 to 5,000,000	**–**	–
HK$5,000,001 to 5,500,000	**–**	–
HK$5,500,001 to 6,000,000	**1**	1
	3	3

During the year, no directors, nor any of the non-director, highest paid employees waived or agreed to waive any remuneration (2010: none). None of the directors, or any of the non-directors, highest paid employees was paid by the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2010: none)

12. INCOME TAX

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

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

State income tax and federal income tax of the Group's subsidiary in the United States have been provided for at a rate 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 8.5% and 9.5% in the respective states where the subsidiary operates, and the federal income tax rate ranges from 15% to 39% on a progressive basis.

The Group's subsidiary registered in Japan is subject to income tax based on the taxable income at rates ranging from 20.7% to 35.3% on a progressive basis. In 2011, no income tax in Japan has been provided as there was no taxable income.

The Group's subsidiaries registered in the Netherlands are subject to income tax based on the taxable income at rates ranging from 20% to 25.5% on a progressive basis.

All of the Group's subsidiaries registered in the People's Republic of China ("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. On 16 March 2007, the PRC government promulgated Law of the PRC on Enterprise Income Tax (the "EIT Law"), which was effective from 1 January 2008. On 6 December 2007, the State Council issued the Implementation Regulation of the EIT Law. The EIT Law and the Implementation Regulation changed the tax rate of the PRC enterprise from 33% to 25% from 1 January 2008 onwards.

Pursuant to relevant tax rules under the EIT Law and with the approval from the relevant tax authorities in the PRC, one of the Group's subsidiaries, Goodbaby Child Products Co., Ltd. ("GCPC"), is qualified as a "High and New Technology Enterprise" and was subject to a preferential tax rate of 15% from 2011 to 2013.

12. INCOME TAX (Continued)

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

	Group	
	2011	2010
	(HK$'000)	(HK$'000)
Current income tax - PRC		
– Income tax for the year	**3,516**	43,361
– Over-provision in prior years (note (a))	**(12,330)**	–
	(8,814)	43,361
United States state and federal income tax	**2,013**	226
Japan income tax	**–**	14
Netherlands income tax	**59**	71
Hong Kong profits tax	**9,681**	2,495
Deferred income tax (note 29)	**13,178**	(3,225)
Income tax expense reported in the statement of comprehensive income	**16,117**	42,942

Note (a): In 2011, the board of directors of an indirect wholly-owned domestic subsidiary of the Company resolved to reduce its profit appropriation previously declared in 2010 but has not been paid to a Hong Kong incorporated and wholly-owned subsidiary of the Company, by RMB 100,000,000. This resulted in a credit of RMB10,000,000 (equal to approximately HK$12,335,000) of over-provided withholding income tax in the current year's income tax expense of the Group.

12. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate for the year is as follows:

	Group	
	2011	2010
	(HK$'000)	(HK$'000)
Profit before tax from continuing operations	**193,805**	246,132
Expected income tax on profit before tax, calculated at the applicable tax rate of 25%	**48,452**	61,533
Lower tax rate for specific provision	**(15,233)**	(26,555)
Tax loss utilised	**–**	(1,317)
Tax credit arising from additional deduction of R&D expenditures of PRC subsidiaries	**(9,771)**	(5,117)
Over-provision in prior years	**(12,330)**	–
Non-taxable income	**(5,152)**	(2,728)
Non-deductible expenses	**538**	8,777
Deferred tax liability on withholding tax	**9,613**	8,349
Income tax expense	**16,117**	42,942

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of HK$14,349,000 (2010: HK$96,962,000) which has been dealt with in the financial statements of the Company (note 34(b)).

14. DISCONTINUED OPERATION

In 2010, one of the Group's subsidiaries, GCPC, underwent a demerger exercise and a new entity, namely Goodbaby China Commercial Co., Ltd. ("GCCL"), was established to take over the domestic retail business from GCPC. In 2010, the Group disposed of its equity interests in GCCL, Shanghai Goodbaby Fashion Co., Ltd. ("SHFS"), Shanghai Goodbaby Online Services Co., Ltd. ("SGOL"), Richy Bright Limited ("RCBL"), MGCR and Mothercare-Goodbaby Retailing Co., Ltd. ("MGRL") to GBHL for a consideration of HK$287,936,000 in aggregate, resulting in a gain of HK$35,699,000 (note 32). GCCL, SHFS, SGOL, RCBL, MGCR and MGRL are mainly engaged in the domestic retail business. The disposal of the domestic retail business has been accounted for as a discontinued operation.

The results of the aforesaid discontinued operation during 2010 are presented below:

	2010 (HK$'000)
Revenue	677,065
Cost of sales	(470,461)
Gross profit	206,604
Other income	4,546
Selling and distribution costs	(196,485)
Administrative expenses	(68,499)
Other expenses	208
Operating loss	(53,626)
Finance income	472
Finance costs	(6,141)
Loss before tax	(59,295)
Income tax credit	7,058
Loss for the year	(52,237)

14. DISCONTINUED OPERATION (Continued)

The net cash inflow/(outflow) incurred by the discontinued operation are as follows:

	2010 (HK$'000)
Operating activities	40,075
Investing activities	(9,841)
Financing activities	(4,942)
Net	25,292

15. DIVIDENDS

	2011 (HK$'000)	2010 (HK$'000)
Dividend declared to the then equity holder	**–**	406,505
Final dividend proposed subsequent to the reporting period - HK5 cents per ordinary share (2010: HK5 cents)	**50,000**	50,000
Net	**50,000**	456,505

On 31 July 2010, the Company declared a special dividend to the then equity holder of the Company amounting to HK$406,505,000 (HK$14.89 per share), of which, HK$395,135,000 was settled through the reduction in an amount due from a related party.

The final dividend proposed subsequent to the reporting period has not been recognised as a liability at the end of the reporting period and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

16. 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 1,000,000,000 in issue during the year (2010: 819,926,027).

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2010 and 2011 includes the pro forma issued share capital of the Company of 799,000,000 shares, comprising:

i) 27,300,000 issued and fully paid (note 33(i)); and

ii) the capitalisation issue of 771,700,000 shares (note 33(iii)).

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2010 includes the weighted average of 20,926,027 shares issued upon the listing of the Company's shares on the Stock Exchange on 24 November 2010 in addition to the aforementioned 799,000,000 ordinary shares.

The calculations of basic earnings per share are based on:

	2011 (HK$'000)	2010 (HK$'000)
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation		
From continuing operations	**176,915**	200,746
From a discontinued operation	**–**	(49,821)
	176,915	150,925
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,000,000,000**	819,926,027

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2011 as the group had no potentially dilutive ordinary shares in issue during the year.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings (HK$'000)	Plant and machinery (HK$'000)	Motor vehicles (HK$'000)	Furniture and fixtures (HK$'000)	Leasehold improvements (HK$'000)	Construction in process (HK$'000)	Total (HK$'000)
Cost							
As at 1 January 2010	409,051	432,510	12,071	64,133	145,886	21,415	1,085,066
Additions	12,573	31,077	2,964	10,877	25,122	23,275	105,888
Transfers	8,430	11,623	-	96	453	(20,602)	-
Disposals	(4,652)	(7,712)	(666)	(2,642)	(1,907)	-	(17,579)
Disposal of a discontinued operation	(40,628)	(3,210)	(8,725)	(34,609)	(127,698)	(16,976)	(231,846)
Translation adjustments	13,585	15,782	253	2,024	1,918	417	33,979
As at 31 December 2010 and 1 January 2011	398,359	480,070	5,897	39,879	43,774	7,529	975,508
Additions	8,047	49,780	3,406	53,035	2,590	35,138	151,996
Transfers	15,201	12,111	-	-	-	(27,312)	-
Disposals	-	(12,615)	(306)	(2,870)	-	-	(15,791)
Translation adjustments	20,247	24,851	337	3,043	2,097	539	51,114
As at 31 December 2011	441,854	554,197	9,334	93,087	48,461	15,894	1,162,827
Accumulated depreciation							
As at 1 January 2010	125,853	216,017	8,267	28,543	95,381	-	474,061
Depreciation charge	18,570	34,993	807	13,589	18,340	-	86,299
Disposals	(1,288)	(5,440)	(601)	(1,728)	(1,829)	-	(10,886)
Disposal of a discontinued operation	(14,823)	(1,829)	(6,178)	(20,569)	(83,341)	-	(126,740)
Translation adjustments	4,118	8,161	137	977	890	-	14,283
As at 31 December 2010 and 1 January 2011	132,430	251,902	2,432	20,812	29,441	-	437,017
Depreciation charge	15,111	35,149	1,117	13,428	8,389	-	73,194
Disposals	-	(7,590)	(276)	(2,056)	-	-	(9,922)
Translation adjustments	6,887	13,075	138	1,206	1,145	-	22,451
As at 31 December 2011	154,428	292,536	3,411	33,390	38,975	-	522,740
Net carrying amount							
As at 31 December 2011	287,426	261,661	5,923	59,697	9,486	15,894	640,087
As at 31 December 2010	265,929	228,168	3,465	19,067	14,333	7,529	538,491

18. PREPAID LAND LEASE PAYMENTS

Group

	2011 (HK$'000)	2010 (HK$'000)
At beginning of year	**67,118**	65,694
Additions	**2,985**	9,139
Amortisation	**(2,793)**	(1,918)
Disposal of a discontinued operation	**–**	(8,047)
Translation adjustments	**3,285**	2,250
At end of year	**70,595**	67,118

19. INTANGIBLE ASSETS

Group

	Goodwill (HK$'000)	Trademarks (HK$'000)	Computer software (HK$'000)	Total (HK$'000)
Cost				
As at 1 January 2010	15,181	30,366	19,184	64,731
Additions	–	5,104	1,558	6,662
Disposal of a discontinued operation	–	(10,494)	(17,170)	(27,664)
Translation adjustments	503	792	24	1,319
As at 31 December 2010 and 1 January 2011	15,684	25,768	3,596	45,048
Additions	–	2,348	7,328	9,676
Translation adjustments	225	1,327	287	1,839
As at 31 December 2011	15,909	29,443	11,211	56,563

19. INTANGIBLE ASSETS (Continued)

Group (Continued)

	Goodwill (HK$'000)	Trademarks (HK$'000)	Computer software (HK$'000)	Total (HK$'000)
Accumulated amortisation				
As at 1 January 2010	–	(14,948)	(13,250)	(28,198)
Amortisation charge	–	(2,765)	(1,864)	(4,629)
Disposal of a discontinued operation	–	5,522	13,365	18,887
Translation adjustments	–	(380)	108	(272)
As at 31 December 2010 and 1 January 2011	–	(12,571)	(1,641)	(14,212)
Amortisation charge	–	(2,500)	(992)	(3,492)
Translation adjustments	–	(677)	(100)	(777)
As at 31 December 2011	–	(15,748)	(2,733)	(18,481)
Accumulated impairment				
As at 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	–	–	–	–
Net carrying amount				
As at 31 December 2010	15,684	13,197	1,955	30,836
As at 31 December 2011	15,909	13,695	8,478	38,082

19. INTANGIBLE ASSETS (Continued)

Group (Continued)

Goodwill arose on acquisitions of subsidiaries in prior years. Goodwill is allocated to the following cash-generating unit ("CGU") identified:

	2011 (HK$'000)	2010 (HK$'000)
Manufacturing and exporting of stroller-related products	**15,909**	15,684

The recoverable amount of the CGU is determined based on value in use calculations. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to the cash flow projections as at 31 December 2011 are 14% (2010: 12%). No growth has been projected beyond the five-year period.

Key assumptions were used in the value in use calculation of the above cash-generating unit for each reporting date. The following describes each key assumption on which 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 rates — The discount rates used are before tax and reflect specific risks relating to the relevant unit.

The value assigned to key assumptions is consistent with external information sources.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of each of the cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to materially exceed its recoverable amount.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2011 (HK$'000)	2010 (HK$'000)
Forward currency contracts - assets	**13,947**	–
Forward currency contracts - liabilities	**–**	2,885

The Group uses forward currency contracts to manage some of its transaction exposures. These forward currency contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with currency transaction exposures, which are generally two to twelve months.

The carrying amounts of derivative financial instruments approximates to the amount of its fair value. The fair value of derivative financial instruments was calculated based on a forward pricing model, using present value calculations. The model incorporates various inputs including the foreign exchange contract rates and forward rates, and the forward rate curves.

21. INVENTORIES

	Group	
	2011 (HK$'000)	2010 (HK$'000)
Raw materials	**251,186**	169,067
Work in progress	**79,138**	84,491
Finished goods	**346,443**	317,751
	676,767	571,309

22. TRADE AND NOTES RECEIVABLES

	Group 2011 (HK$'000)	Group 2010 (HK$'000)
Trade receivables	**616,135**	493,714
Notes receivable	**26,780**	13,026
	642,915	506,740
Impairment of the trade receivables	**(488)**	(429)
	642,427	506,311

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. Trade receivables are non-interest-bearing.

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

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

	Group 2011 (HK$'000)	Group 2010 (HK$'000)
Within 3 months	**607,354**	479,280
3 to 6 months	**7,070**	9,261
6 months to 1 year	**1,202**	4,584
Over 1 year	**21**	160
	615,647	493,285

22. TRADE AND NOTES RECEIVABLES (Continued)

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2011 (HK$'000)	2010 (HK$'000)
At beginning of year	**429**	6,477
Recognition/(reversal) of impairment for the year	**245**	(620)
Amounts written off	**(186)**	(5,288)
Disposal of a discontinued operation	**–**	(140)
At end of year	**488**	429

An aged analysis of trade receivables of the Group that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2011 (HK$'000)	2010 (HK$'000)
Neither past due nor impaired	**577,591**	457,264
Less than 1 month past due	**32,081**	24,041
1 to 2 months past due	**4,352**	7,300
2 to 3 months past due	**1,115**	1,953
Over 3 months and within 1 year past due	**508**	2,727
At end of year	**615,647**	493,285

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The carrying amounts of the trade and notes receivables approximate to their fair values due to their short term maturity.

23. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2011 (HK$'000)	2010 (HK$'000)	**2011 (HK$'000)**	2010 (HK$'000)
Prepayments	**141,007**	139,770	**–**	–
Other receivables	**25,289**	38,473	**174**	7,103
	166,296	178,243	**174**	7,103

The above balances are unsecured, interest-free and have no fixed terms of repayment.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The carrying amount of other receivables approximates to their fair value due to their short term maturity.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 (HK$'000)	2010 (HK$'000)	**2011 (HK$'000)**	2010 (HK$'000)
Cash and bank balances	**788,356**	1,024,722	**554,937**	531,174
Denominated in RMB	**727,443**	110,927	**554,223**	–
Denominated in HK$	**743**	832,403	**105**	531,122
Denominated in other currencies	**60,170**	81,392	**609**	52
Cash and bank balances	**788,356**	1,024,722	**554,937**	531,174

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.

25. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011 (HK$'000)	2010 (HK$'000)
Within 3 months	**719,854**	594,236
3 to 12 months	**130,188**	87,069
1 to 2 years	**4,277**	2,174
2 to 3 years	**1,930**	872
Over 3 years	**1,053**	829
	857,302	685,180

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

26. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	Group		Company	
	2011 (HK$'000)	2010 (HK$'000)	**2011 (HK$'000)**	2010 (HK$'000)
Other payables	**49,102**	75,613	**15,688**	23,497
Advances from customers	**62,513**	49,965	**–**	–
Accruals	**125,116**	140,346	**223**	–
	236,731	265,924	**15,911**	23,497

The above balances are non-interest-bearing and repayable on demand. The carrying amounts of other payables approximate to their fair values due to their short term maturity.

27. PROVISION

Group

	Product warranties (HK$'000)
Balance at 1 January 2010	20,690
Additional provision	11,968
Amounts utilised	(9,564)
Translation adjustments	828
Balance at 31 December 2010 and 1 January 2011	23,922
Additional provision	1,864
Amounts utilised	(13,844)
Translation adjustments	996
Balance at 31 December 2011	12,938

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.

28. INTEREST-BEARING BANK BORROWINGS

	Group					
	2011			2010		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Unsecured bank loans	**3.66-6.26**	**2012**	**86,725**	4.37 - 4.86	2011	167,149
Bank borrowings pledged by intra-group trade receivables	**3.90-4.60**	**2012**	**239,773**	1.05 - 1.06	2011	152,441
Subtotal			**326,498**			319,590
Non-current						
Unsecured bank loans	-	-	-	4.86	2012	152,779
Total			**326,498**			472,369

All short-term bank borrowings were obtained from third party financial institutions. As at 31 December 2011, a subsidiary had pledged trade receivables of approximately HK$256,835,000(2010: HK$167,162,000) to secure certain of the Group's bank loans and these trade receivables had been eliminated at the group level.

	Group	
	2011 (HK$'000)	2010 (HK$'000)
Analyzed into:		
Bank loans repayable:		
Within one year	**326,498**	319,590
In the second year, inclusive	**-**	152,779
	326,498	472,369

The carrying amounts of the Group's current interest-bearing bank borrowings approximate to their fair values due to their short term maturity.

The carrying amount of the Group's long term borrowings approximates to their fair value because of the floating interest rate.

29. DEFERRED TAX

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

Deferred tax assets - Group:

	Provision for impairment of receivables (HK$'000)	Write-down of inventories (HK$'000)	Provision (HK$'000)	Derivative financial instruments (HK$'000)	Accruals (HK$'000)	Losses available for offsetting against future taxable profits (HK$'000)	Total (HK$'000)
As at 1 January 2010	1,224	1,752	3,677	-	11,681	-	18,334
(Charged)/credited to statement of comprehensive income (note 12)	(1,169)	1,227	453	433	(3,909)	-	(2,965)
Translation adjustments	36	52	109	-	346	-	543
As at 31 December 2010 and 1 January 2011	91	3,031	4,239	433	8,118	-	15,912
Credited/(charged) to statement of comprehensive income (note 12)	5	207	(2,111)	(445)	168	660	(1,516)
Translation adjustments	5	156	165	12	406	13	757
As at 31 December 2011	101	3,394	2,293	-	8,692	673	15,153

The Group has tax losses arising in Mainland China of HK$2,635,000 (2010: HK$0) that will expire in one to five years for offsetting against future taxable profits.

29. DEFERRED TAX (Continued)

Deferred tax liabilities – Group:

	Withholding tax on undistributed profits of the PRC subsidiary (HK$'000)	Derivative financial instruments (HK$'000)	Total (HK$'000)
At 1 January 2010	14,539	–	14,539
Credited to statement of comprehensive income (note 12)	(6,190)	–	(6,190)
At 31 December 2010 and 1 January 2011	8,349	–	8,349
Charged to statement of comprehensive income (note 12)	9,613	2,049	11,662
Translation adjustments	618	43	661
At 31 December 2011	18,580	2,092	20,672

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%.

29. DEFERRED TAX (Continued)

Deferred tax liabilities – Group: (Continued)

For presentation purposes, certain deferred tax assets and liabilities 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:

	Group	
	2011	2010
	(HK$'000)	(HK$'000)
Deferred tax assets arising from:		
– Provision for impairment of receivables	**101**	91
– Write-down of inventories	**3,394**	3,031
– Provision	**2,293**	4,239
– Derivative financial instruments	**–**	433
– Accruals	**8,692**	8,118
– Losses available for offesting against future taxable income	**673**	–
	15,153	15,912
Deferred tax liabilities arising from:		
– Withholding tax on undistributed earnings of the PRC subsidiary	**(18,580)**	(8,349)
– Derivative financial instruments	**(2,092)**	–
	(20,672)	(8,349)
Deferred tax assets, net	**(5,519)**	7,563
Reflected in the consolidated statement of financial position:		
– Deferred tax assets	**15,153**	15,912
– Deferred tax liabilities	**(20,672)**	(8,349)

29. DEFERRED TAX (Continued)

Deferred tax liabilities – Group: (Continued)

At 31 December 2011, 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 totalled approximately HK$329,770,000 at 31 December 2011 (2010: HK$129,490,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. INVESTMENTS IN SUBSIDIARIES - COMPANY

	2011 (HK$'000)	2010 (HK$'000)
Unlisted equity investments, at cost	10,367	10,367
Less: Impairment of investments	–	–
	10,367	10,367

30. INVESTMENTS IN SUBSIDIARIES - COMPANY (Continued)

Particulars of the Group's subsidiaries are as follows:

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company Direct	Indirect	Nominal value of issued/registered paid-up capital	Principal activities
Goodbaby (Hong Kong) Limited ("GBHK")	Hong Kong 23 July 1999	100%	-	HK$1,000	Investment holding and distribution and sale of safety belts, cloth sets, car safety seats, car components for children and infant strollers
Turn Key Design Cooperative U.A. ("GBNH")	Netherlands 21 January 2008	1%	99%	EURO100	Investment holding
Goodbaby Children's Products, Inc. ("GCPI")	The United States of America 16 May 2002	–	100%	US$ 200,000	Distribution and sale of safety belts, cloth sets, car safety seats, car components for children and infant strollers
Goodbaby Child Products Co., Ltd. ("GCPC")	PRC 18 November 1994	–	100%	US$ 52,000,000	Manufacturing, 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")	PRC 9 September 1996	–	85%	RMB 10,000,000	Manufacturing, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs

30. INVESTMENTS IN SUBSIDIARIES - COMPANY (Continued)

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company Direct	Indirect	Nominal value of issued/registered paid-up capital	Principal activities
PCPC	PRC 5 November 2008	–	100%	RMB 10,000,000	Manufacturing, distribution and sale of dining chairs, cribs and tricycles for children
Goodbaby Child Products Ping Xiang Co., Ltd* ("GCCX")	PRC 26 December 2011		100%	RMB 2,000,000	Manufacturing, distribution and sale of child cloth beds, infant strollers, bath chairs for children and stadium chairs
Goodbaby Japan Co., Ltd. ("GBJP")	Japan 5 February 2008	–	100%	JPY 3,000,000	Research and development ("R&D") services, preliminary product design
Turn Key Design B.V. ("GBNE")	Netherlands 24 January 2008	–	100%	EURO18,000	R&D services, preliminary product design

Prior to the listing of the Company's shares on the Stock Exchange, the Company pledged a 25% equity interest in GCPN and a 100% equity interest in GCPC for the borrowings of GBHL from Taipei Fubon Commercial Bank Company Limited ("Fubon"). The above pledge of equity interests was released on 24 November 2010 upon the repayment of borrowings from Fubon by GBHL. Details are included in note 37(c)(ii).

(i) GCPC and PCPC are wholly foreign owned enterprises established in the PRC.

(ii) GCPN is a sino-fgoreign equity joint venture established in the PRC.

(iii) GCCX is a domestic company established in the PRC.

* For identification purpose only

31. INVESTMENTS IN A JOINTLY-CONTROLLED ENTITY

Particulars of the jointly-controlled entity are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Kunshan Goodbaby Tommee Tippee Child Products Co., Ltd. ("GCTP")	US$300,000	PRC	51%	50%	51%	Distribution and sale of milk bottles, tableware and toys

GCTP is accounted for as a jointly-controlled entity because according to the joint venture contract, the Group can only appoint half of the board members of GCTP.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2011 (HK$'000)	2010 (HK$'000)
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**1,048**	1,061
Non-current assets	**1**	3
Current liabilities	**(36)**	(49)
Net assets	**1,013**	1,015
Share of the jointly-controlled entity's results:		
Revenue	**-**	293
Cost of sales	**-**	(252)
	-	41
Total operating expenses	**(52)**	(16)
Tax	**-**	-
(Loss)/profit after tax	**(52)**	25

32. DISPOSAL OF SUBSIDIARIES/OPERATIONS

As detailed in note 14, the Group disposed of certain subsidiaries/operations to a related party during 2010.

	2010 (HK$'000)
Net assets disposed of:	
Property, plant and equipment	105,106
Investment property	10,096
Intangible assets	8,777
Prepaid land lease payments	8,047
Inventories	412,012
Trade and other receivables	125,790
Amounts due from related parties	502,683
Cash and cash equivalents	37,262
Trade and other payables	(304,917)
Amounts due to related parties	(646,452)
Non-controlling interests	(6,167)
	252,237
Gain on disposal recognised as a deemed contribution directly in equity	35,699
	287,936
Satisfied by:	
Offsetting an amount due to a related party	200,350
Amount due from a related party	87,586
	287,936

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries/operations is as follows:

	2010 (HK$'000)
Cash consideration	
Cash and cash equivalents disposed of	(37,262)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries/operations	(37,262)

33. SHARE CAPITAL

	The Group and the Company			
	Number of shares		Amount	
	2011	2010	**2011**	2010
	('000)	('000)	**(HK$'000)**	(HK$'000)
Authorised:				
Ordinary shares of HK$0.01 each (note (ii))	**50,000,000**	50,000,000	**500,000**	500,000

	Number of shares in issue ('000)	Issued capital (HK$'000)
Issued and fully paid:		
At 1 January 2010 ((note (i))	27,300	273
Capitalisation issue (note (iii))	771,700	7,717
Issuance of shares by placing and public offering (note (iv))	201,000	2,010
At 31 December 2010 and 2011	1,000,000	10,000

(i) The Company was incorporated in the Cayman Islands on 14 July 2000 with an authorised share capital of HK$390,000 divided into 39,000,000 ordinary shares of par value HK$0.01 each. As at 31 December 2009, 27,300,000 ordinary shares of HK$0.01 in the Company were allotted and issued to shareholders.

(ii) Pursuant to the written resolution passed on 5 November 2010, the authorised share capital of the Company was increased from HK$390,000 divided into 39,000,000 shares of HK$0.01 each to HK$500,000,000 divided into 50,000,000,000 shares of HK$0.01 each by the creation of 49,961,000,000 additional shares of HK$0.01 each.

(iii) On 5 November 2010, the Company authorised the issuance of 771,700,000 ordinary shares of HK$0.01 each to the then shareholders of the Company in the proportion of their respective shareholdings in the Company by way of capitalisation of HK$7,717,000 from share premium account upon the listing of the Company's shares on the Stock Exchange. The above shares were issued on 24 November 2010.

(iv) On 24 November 2010, 201,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$4.9 per share under a global offering of the Company's ordinary shares. The proceeds of HK$2,010,000 representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$982,890,000, before share issuance expenses amounting to HK$58,260,000, were credited to share premium account.

34. RESERVES

(a) GROUP

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-owned foreign enterprises ("WOFE") 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 WOFE is required to appropriate at least 10% of its net profit after tax to the reserve fund until the balance of this fund has reached 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 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 a foreign invested company. The percentages to be appropriated to the enterprise expansion fund are determined by the board of directors of the subsidiaries.

(iii) Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the Group's PRC subsidiaries, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of this reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after these usages.

34. RESERVES (Continued)

(a) GROUP (Continued)

Merger reserve

As at 31 December 2011, the merger reserve represents:

i) In 2001, the Group acquired GCPC from GCPC's then shareholders through the issuance 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 amounted to HK$108,281,000 was recognised as merger reserve;

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) As mentioned in note 2 above, 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 as merger reserve in 2008; and

iv) In 2010, the Group disposed of its equity interests in GCCL, SHFS, SGOL, RCBL, MGCR and MGRL to GBHL (note 14) for a consideration of HK$287,936,000 in aggregate. The consideration over the net asset value of the discontinued operation amounting to HK$35,699,000 was recognised as a deemed contribution in the merger reserve account (note 32).

34. RESERVES (Continued)

(b) COMPANY

	Share premium (HK$'000) (note (a))	Retained earnings (HK$'000)	Total (HK$'000)
As at 1 January 2010	255,668	171,834	427,502
Profit for the year	–	96,962	96,962
Proposed final 2010 dividend (note 15)	–	(50,000)	(50,000)
Issuance of shares (note 33(iv))	982,890	–	982,890
Capitalisation issue (note 33(iii))	(7,717)	–	(7,717)
Share issuance expenses (note 33(iv))	(58,260)	–	(58,260)
Special dividends declared (note 15)	(255,668)	(150,837)	(406,505)
As of 31 December 2010 and 1 January 2011	916,913	67,959	984,872
Profit for the year	–	14,349	14,349
Proposed final 2011 dividend (note 15)	–	(50,000)	(50,000)
As of 31 December 2011	**916,913**	**32,308**	**949,221**

Note (a) Share premium as at 1 January 2010 arose from the issuance of shares to the then investors of the Company in 2001 and in 2003.

35. OPERATING LEASE ARRANGEMENTS

– Group as lessee

	2011 (HK$'000)	2010 (HK$'000)
Within one year	**41,027**	17,268
After one year but not more than five years	**65,673**	26,453
More than five years	**26,455**	1,832
	133,155	45,553

36. COMMITMENTS

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

	Group	
	2011 (HK$'000)	2010 (HK$'000)
Contracted, but not provided for in respect of acquisition of:		
Property, plant and equipment	**5,243**	–

37. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

Name of related party	Relationship with the Group
CRF Enterprise	One of the Company's shareholders
CRF Investment Holdings Limited ("CRFH")	Parent company of CRF Enterprise
Mr. Song Zhenghuan ("Mr. Song")	Director and one of the ultimate shareholders of the Company
Ms. Fu Jingqiu ("Ms. Fu")	One of the ultimate shareholders of the Company
Goodbaby Bairuikang Hygienic Products Co., Ltd. ("BRKH")	50/50 jointly controlled by First Shanghai Hygienic Products Limited and Sure Growth Investments Limited, which is significantly influenced by Mr. Song and Ms. Fu
Goodbaby Group Co., Ltd. ("GGCL")	Significantly influenced by Mr. Song
GBHL	Significantly influenced by CRF
GPHL	Controlled by GBHL
GCCL	Controlled by GBHL
RCBL	Controlled by GBHL
FSCP	Controlled by GBHL
MGCR	Controlled by GBHL
BEHL	Controlled by GBHL
GCTP	Controlled by GBHL
GPCL*	Formerly controlled by GBHL
Majestic Sino Ltd. ("MJSL")	Controlled by CRF
ETHL	Controlled by MJSL
GRTC	Controlled by MJSL
SGCP	Controlled by MJSL
CRF Holdings Limited ("CRFH")	Controlled by MJSL

* GPCL was disposed to an independent third party by GBHL and was no longer a related party of the Group effective from January 2011.

37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Related party transactions

Group

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:

	2011 (HK$'000)	2010 (HK$'000)
Sales of goods to related parties (note (a))		
GCCL#	**374,384**	107,949
SGCP	–	6,504
MGRL	–	225
SHFS	–	259
	374,384	114,937
Sales of raw materials to related parties (note (a))		
GPCL#	–	15,380
Sales of property, plant and equipment to related parties (note (a))		
GPCL	–	546
Purchases of goods from related parties (note (b))		
BRKH	–	3,432
GPCL	–	6,743
	–	10,175
Purchase of raw materials from a related party (note (b))		
GPCL	–	73
Purchase of property, plant and equipment from a related party (note (b))		
GPCL	–	996
Service fee income from a related party (note (c))		
GPCL#	–	1,508

37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Related party transactions (Continued)

Group (Continued)

	2011 (HK$'000)	2010 (HK$'000)
Rental income from related parties (note (c))		
SHFS	**–**	210
GPCL	**–**	1,092
	–	1,302
Rental expense to a related party (note (d))		
GGCL#	**846**	1,352
Dividends payable		
GBHL	**–**	406,505
Expenses paid on behalf of related parties (note (f))		
GCCL#	**612**	–
SGCP#	**113**	–
GPCL	**–**	3,413
BRKH	**–**	923
	725	4,336

37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Related party transactions (Continued)

Group (Continued)

	2011 (HK$'000)	2010 (HK$'000)
Expenses paid by related parties (note (f))		
BRKH#	**313**	–
GPCL	**–**	6,979
	313	6,979
Professional service expenses charged back to related parties (note (f))		
CRF Enterprise	**–**	3,100
GBHL	**–**	6,820
	–	9,920
Advances to related parties (note (e))		
GBHL	**–**	37,227
SGCP	**–**	6,770
	–	43,997

Note (a): The sales of goods, raw materials and items of property, plant and equipment to the related parties were made according to the prices and terms agreed between the related parties.

Note (b): The purchases of goods, raw materials and items of property, plant and equipment from the related parties were made according to the prices and terms offered by the related parties.

Note (c): The rental income and service fee income from related parties were received according to the prices and terms agreed between the related parties.

Note (d): The rental expense to a related party was made according to the prices and terms offered by the related parties.

Note (e): The advances from/to related parties are interest-free and repayable on demand.

Note (f): Expenses and procurement paid on behalf of/by the related parties and professional service expenses charged back to related parties are interest-free and repayable on demand.

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

37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Other transactions with related parties

(i) In 2010, the Group disposed of a discontinued operation to a related party. Details of which are described in notes 14 and 32. The disposal of a discontinued operation was made according to the considerations and terms agreed between the related parties.

(ii) Prior to the listing of the Company's shares on the Stock Exchange, the Company and certain subsidiaries have guaranteed the borrowings of GBHL from Fubon, secured all of their assets and pledged its 25% equity interest in GCPN and 100% equity interest in GCPC to Fubon. The above guarantees and pledge of assets and equity interest were released on 24 November 2010 upon the repayment of borrowings from Fubon by GBHL.

(iii) The Group offset its amount due from GBHL with an amount due to GBHL of HK$595,485,000 in 2010.

(iv) In June 2009, one subsidiary of the Group provided a guarantee to GPCL for the short term borrowing of HK$68,143,000 from a bank and the guarantee was subsequently released in June 2010 upon the repayment of the bank loan by GPCL.

(d) Outstanding balances with related parties

GROUP

	2011 (HK$'000)	2010 (HK$'000)
Amounts due from related parties		
GCCL	**119,529**	75,550
GPCL	**–**	1,395
	119,529	76,945
Amounts due to related parties		
GBHL	**–**	446
CRFH	**–**	203
	–	649

37. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(d) Outstanding balances with related parties (Continued)

COMPANY

	2011 (HK$'000)	2010 (HK$'000)
Amounts due to related parties		
GBHL	**–**	446
CRFH	**–**	203
Total	**–**	649

The amounts due from/to related parties and balances with subsidiaries are unsecured, interest-free and repayable on demand.

(e) Compensation of key management personnel of the Group

	2011 (HK$'000)	2010 (HK$'000)
Short term employee benefits	**25,624**	36,762
Post-employment benefits	**167**	131
Total compensation paid to key management personnel	**25,791**	36,893

Further details of directors' remuneration are included in note 10 to the financial statements.

38. 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:

GROUP

Financial assets

As at 31 December 2011	**Financial assets at fair value through profit or loss (HK$'000)**	**Loans and receivables (HK$'000)**	**Total (HK$'000)**
Trade and notes receivables	**-**	**642,427**	**642,427**
Financial assets included in prepayments and other receivables (note 23)	**-**	**25,289**	**25,289**
Due from related parties	**-**	**119,529**	**119,529**
Cash and cash equivalents	**-**	**788,356**	**788,356**
Derivative financial instruments	**13,947**	**-**	**13,947**
	13,947	**1,575,601**	**1,589,548**

As at 31 December 2010	Loans and receivables (HK$'000)
Trade and notes receivables	506,311
Financial assets included in prepayments and other receivables (note 23)	38,473
Due from related parties	76,945
Cash and cash equivalents	1,024,722
	1,646,451

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

GROUP (Continued)

Financial liabilities

As at 31 December 2011	**Financial liabilities at amortised cost (HK$'000)**
Financial liabilities included in other payables, advances from customers and accruals (note 26)	**49,102**
Trade and notes payables	**857,302**
Interest-bearing bank borrowings	**326,498**
	1,232,902

As at 31 December 2010	Financial liabilities at fair value through profit or loss (HK$'000)	Financial liabilities at amortised cost (HK$'000)	Total (HK$'000)
Financial liabilities included in other payables, advances from customers and accruals (note 26)	–	75,613	75,613
Trade and notes payables	–	685,180	685,180
Interest-bearing bank borrowings	–	472,369	472,369
Derivative financial instruments	2,885	–	2,885
Due to related parties	–	649	649
	2,885	1,233,811	1,236,696

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

COMPANY

Financial assets

As at 31 December 2011	**Loans and receivables (HK$'000)**
Financial assets included in prepayments and other receivables (note 23)	**174**
Due from subsidiaries	**459,928**
Cash and cash equivalents	**554,937**
	1,015,039

As at 31 December 2010	Loans and receivables (HK$'000)
Financial assets included in prepayments and other receivables (note 23)	7,103
Due from subsidiaries	520,522
Cash and cash equivalents	531,174
	1,058,799

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

COMPANY (Continued)

Financial liabilities

As at 31 December 2011	**Financial liabilities at amortised cost (HK$'000)**
Financial liabilities included in other payables, advances from customers and accruals (note 26)	**15,688**
Due to a subsidiary	**274**
	15,962

As at 31 December 2010	Financial liabilities at amortised cost (HK$'000)
Financial liabilities included in other payables, advances from customers and accruals (note 26)	23,497
Due to a subsidiary	148
Due to related parties	649
	24,294

39. FAIR VALUE AND FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

Assets measured at fair value

	31 December 2011 (HK$'000)	**Level 1** (HK$'000)	**Level 2** (HK$'000)	**Level 3** (HK$'000)
Foreign exchange forward contracts	13,947	–	13,947	–

Liabilities measured at fair value

	31 December 2010 (HK$'000)	Level 1 (HK$'000)	Level 2 (HK$'000)	Level 3 (HK$'000)
Foreign exchange forward contracts	2,885	–	2,885	–

During the year, 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 (2010: none).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing bank borrowings, trade payables, other payables and amounts due to related parties. 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 risks 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 rate 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 2011	+5%/-5%	(581)/581
Year ended 31 December 2010	+5%/-5%	(917)/917

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

40. 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. This exposure arises from sales or purchases by operating units in currencies other than the units' functional currencies.

The Group enters into forward exchange contracts in order to manage this exposure.

Other than the operating units' functional currencies, the currency which has significant transactional currency exposure is the US dollar. 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 United States dollar ("US$") exchange rate, 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).

	Increase/decrease in US$ rate	Increase/ (decrease) in profit before tax (HK$'000)
Year ended 31 December 2011		
If US$ strengthens against RMB	**+5%**	**(3,314)**
If US$ weakens against RMB	**-5%**	**3,314**
Year ended 31 December 2010		
If US$ strengthens against RMB	+5%	(4,972)
If US$ weakens against RMB	-5%	4,972

The effect on the profit before tax is a result of a change in the fair value of derivative financial instruments not designated in a hedging relationship and monetary assets and liabilities denominated in US$, where the functional currency of the operating unit is a currency other than the US$. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur.

A reasonably possible change of 5% in the US$ exchange rate has no impact on the Group's equity other than retained earnings.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group trades only with recognised, 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 with the result that the Group's exposure to bad debts is not significant. Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group has a significant concentration of customers and credit risk as 76% (2010:69%) in North America and Europe. In view of the good credit histories of these customers, no significant default occurred in the year.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, other receivables and amounts due from related parties, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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 bank loans. The Group's policy is that all the borrowings should be approved by the chief financial officer.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

GROUP

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.

	On demand (HK$'000)	Less than 3 months (HK$'000)	3 to 12 months (HK$'000)	1 to 5 years (HK$'000)	Total (HK$'000)
31 December 2011					
Interest-bearing loans and borrowings	**-**	**267,841**	**63,169**	**-**	**331,010**
Trade and notes payables	**629,701**	**227,601**	**-**	**-**	**857,302**
Other payables	**49,102**	**-**	**-**	**-**	**49,102**
	678,803	**495,442**	**63,169**	**-**	**1,237,414**

	On demand (HK$'000)	Less than 3 months (HK$'000)	3 to 12 months (HK$'000)	1 to 5 years (HK$'000)	Total (HK$'000)
31 December 2010					
Interest-bearing loans and borrowings	–	270,382	58,012	156,780	485,174
Trade and notes payables	201,233	483,947	–	–	685,180
Other payables	75,613	–	–	–	75,613
Derivative financial instruments	–	–	2,885	–	2,885
Amounts due to related parties	649	–	–	–	649
	277,495	754,329	60,897	156,780	1,249,501

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

COMPANY

The tables below summarise the maturity profile of the Company's financial liabilities at the end of each reporting period based on contractual undiscounted payments.

	On demand (HK$'000)	Less than 3 months (HK$'000)	3 to 12 months (HK$'000)	1 to 5 years (HK$'000)	Total (HK$'000)
31 December 2011					
Other payables	**15,688**	**-**	**-**	**-**	**15,688**
Amounts due to a subsidiary	**274**	**-**	**-**	**-**	**274**
	15,962	**-**	**-**	**-**	**15,962**

	On demand (HK$'000)	Less than 3 months (HK$'000)	3 to 12 months (HK$'000)	1 to 5 years (HK$'000)	Total (HK$'000)
31 December 2010					
Other payables	23,497	–	–	–	23,497
Amounts due to a subsidiary	148	–	–	–	148
Amounts due to related parties	649	–	–	–	649
	24,294	–	–	–	24,294

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

COMPANY (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 total capital plus net debt. The Group includes, within net debt, interest-bearing loans and borrowings, trade and other payables, and amounts due to related parties less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company.

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

	Group	
	2011 (HK$'000)	2010 (HK$'000)
Trade and notes payables	**857,302**	685,180
Other payables, advances from customers and accruals	**236,731**	265,924
Interest-bearing loans and borrowings	**326,498**	472,369
Amounts due to related parties	**–**	649
Less: Cash and cash equivalents	**(788,356)**	(1,024,722)
Net debt	**632,175**	399,400
Equity attributable to owners of the parent	**1,679,602**	1,515,099
Capital and net debt	**2,311,777**	1,914,499
Gearing ratio	**27%**	21%

41. MAJOR NON-CASH TRANSACTIONS

The Group offset its amount due from with an amount due to certain related parties amounting to HK$595,485,000 in 2010, which did not result in any cash flows.

On 31 July 2010, the Company declared a special dividend to the then equity holder of the Company amounting to HK$406,505,000, of which, HK$395,135,000 was settled through the reduction in an amount due from a related party.

42. EVENT AFTER THE REPORTING PERIOD

On 3 January 2012, the Company has granted to certain eligible participants (the "Grantees"), subject to acceptance by the Grantees, a total of 30,551,000 share options (the "Share Options") under the Share Option Scheme adopted by the Company on 5 November 2010.

On 16 March 2012, the board of directors of the Company proposed a final dividend of HK$0.05 per ordinary share totaling approximately HK$50,000,000 for the year ended 31 December 2011, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (note 15).

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 March 2012.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the published audited financial information and financial statements is set out below.

The summary below does not form part of the audited financial statements.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	(HK$'000)	(HK$'000)	(HK$'000)	(HK$'000)	(HK$'000)
Results					
Continuing operations					
Revenue	**3,941,672**	3,721,908	3,032,235	3,266,191	2,586,476
Cost of sales	**(3,267,990)**	(2,979,349)	(2,463,360)	(2,668,916)	(2,159,362)
Gross profit	**673,682**	742,559	568,875	597,275	427,114
Other income	**106,109**	32,851	25,105	37,313	42,797
Selling and distribution costs	**(271,309)**	(246,002)	(180,115)	(188,873)	(147,689)
Administrative expenses	**(301,080)**	(245,505)	(175,994)	(155,837)	(129,635)
Other expenses	**(5,729)**	(20,593)	(20,046)	(54,521)	(9,896)
Operating profit	**201,673**	263,310	217,825	235,357	182,691
Finance income	**3,749**	1,163	1,373	1,268	1,493
Finance costs	**(11,617)**	(18,341)	(14,415)	(18,950)	(12,112)
Profit before tax from continuing operations	**193,805**	246,132	204,783	217,675	172,072
Income tax expense	**(16,117)**	(42,942)	(40,421)	(44,141)	(9,873)
Profit for the year from continuing operations	**177,688**	203,190	164,362	173,534	162,199
Discontinued operations					
Loss after tax for the year from discontinued operations	**-**	(52,237)	(104,654)	(173,729)	(51,428)
Profit/(loss) for the year	**177,688**	150,953	59,708	(195)	110,771
Attributable to:					
Owners of the parent	**176,915**	150,925	62,745	2,480	109,378
Non-controlling interests	**773**	28	(3,037)	(2,675)	1,393
	177,688	150,953	59,708	(195)	110,771

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2011 (HK$'000)	2010 (HK$'000)	2009 (HK$'000)	2008 (HK$'000)	2007 (HK$'000)
Total assets	**3,171,239**	3,009,887	2,909,852	2,822,194	2,202,292
Total liabilities	**(1,463,791)**	(1,469,010)	(2,085,439)	(2,063,260)	(1,484,857)
Non-controlling interests	**(27,846)**	(25,778)	(31,019)	(29,663)	(30,036)
	1,679,602	1,515,099	793,394	729,271	687,399

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